

## The New Farm Bill: New Decisions for Producers

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UNL Farm Bill information – [farmbill.unl.edu](http://farmbill.unl.edu)  
[www.agecon.unl.edu/farmbill.html](http://www.agecon.unl.edu/farmbill.html)  
USDA Farm Bill information – [www.usda.gov/farmbill](http://www.usda.gov/farmbill)



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## The Setting for the New Farm Bill

- ◆ The Economic Setting
- ◆ The Budget Setting
- ◆ The Trade Setting
- ◆ The Political Setting



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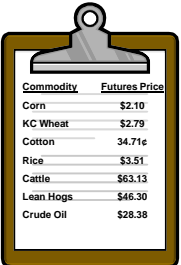

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## Farm Bill Timeline

May 13, 2002

- ◆ *Farm Security and Rural Investment Act of 2002* enacted.



Commodity	Futures Price
Corn	\$2.10
KC Wheat	\$2.79
Cotton	34.71c
Rice	\$3.51
Cattle	\$63.13
Lean Hogs	\$46.30
Crude Oil	\$28.38

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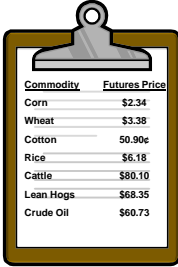
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## Farm Bill Timeline

July 7, 2005

- ◆ Secretary Johanns and Orion Samuelson conduct first Farm Bill Listening Session at RFD-TV studio in Nashville.

Commodity	Futures Price
Corn	\$2.34
Wheat	\$3.38
Cotton	50.90c
Rice	\$6.18
Cattle	\$80.10
Lean Hogs	\$68.35
Crude Oil	\$60.73

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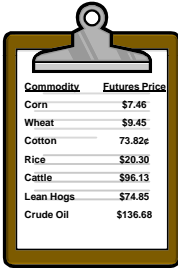
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## Farm Bill Timeline

June 18, 2008

- ◆ House and Senate override Presidential veto of H.R. 6124
- ◆ *Food Conservation and Energy Act of 2008* becomes P.L. 110-246
  - 3+ years of deliberation
  - 6-9 months of delay
  - 8 temporary extensions
  - 1 incomplete farm bill veto and override



Commodity	Futures Price
Corn	\$7.46
Wheat	\$9.45
Cotton	73.82c
Rice	\$20.30
Cattle	\$96.13
Lean Hogs	\$74.85
Crude Oil	\$136.68

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## The 2008 Farm Bill

### More than Just the Farm

- ◆ Commodity Programs
- ◆ Conservation
- ◆ Trade
- ◆ Nutrition
- ◆ Credit
- ◆ Rural Development
- ◆ Research and Related Matters
- ◆ Forestry
- ◆ Energy
- ◆ Horticulture and Organic Agriculture
- ◆ Livestock
- ◆ Crop Insurance and Disaster Assistance Programs
- ◆ Commodity Futures
- ◆ Miscellaneous
- ◆ Trade and Tax Provisions




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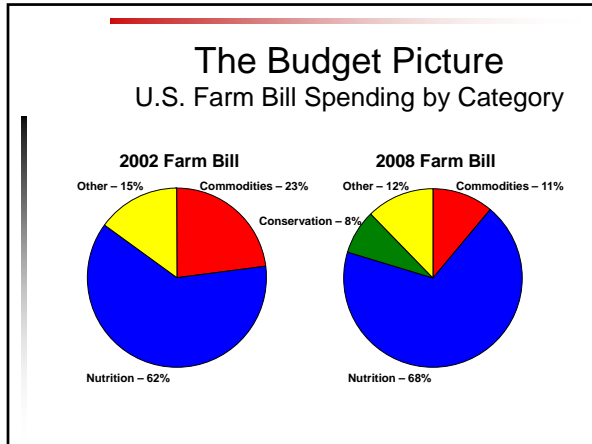
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- ### The 2008 Farm Bill and the Commodity Title
- ◆ Existing three-part safety net
    - Marketing loans and loan deficiency payments
      - Income support tied to price and production
    - Counter-cyclical payments
      - Income support tied to price and historic production base
    - Direct payment
      - Fixed payment tied to legislated rate and historic production base

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### Farm Bill Commodity Program

Existing Price Option

**Direct Payment**

$$\frac{\text{DP rate}}{\text{DP rate}} \times \frac{\text{DP yield}}{\text{DP yield}} \times \frac{\text{base acres}}{\text{base acres}} \times 85\% (83.3\%) = \text{DP}$$

**Counter-Cyclical Payment Rate**

$$\frac{\text{target price}}{\text{target price}} - \frac{\text{DP rate}}{\text{DP rate}} - \text{MAX} \left( \frac{\text{market price}}{\text{market price}}, \frac{\text{loan rate}}{\text{loan rate}} \right) = \text{CCP rate}$$

**Counter-Cyclical Payment**

$$\frac{\text{CCP rate}}{\text{CCP rate}} \times \frac{\text{CCP yield}}{\text{CCP yield}} \times \frac{\text{base acres}}{\text{base acres}} \times 85\% = \text{CCP}$$

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Commodity Program Rates			
Existing and New Loan Rates			
Commodity	2007, 2008	2009	2010-2012
Wheat (bu)	\$2.75	\$2.75	\$2.94
Corn (bu)	\$1.95	\$1.95	\$1.95
Sorghum (bu)	\$1.95	\$1.95	\$1.95
Barley (bu)	\$1.85	\$1.85	\$1.95
Oats (bu)	\$1.33	\$1.33	\$1.39
Upland cotton (lb)	\$0.52	\$0.52	\$0.52
Rice (cwt)	\$6.50	\$6.50	\$6.50
Soybeans (bu)	\$5.00	\$5.00	\$5.00
Other oilseeds (cwt)	\$9.30	\$9.30	\$10.90
Peanuts (ton)	\$355.00	\$355.00	\$355.00
Dry peas (cwt)	\$6.22	\$5.40	\$5.40
Lentils (cwt)	\$11.72	\$11.28	\$11.28
Small chickpeas (cwt)	\$7.43	\$7.43	\$7.43
Large chickpeas (cwt)	-	\$11.28	\$11.28

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Commodity Program Rates	
Existing and New Direct Payment Rates	
Commodity	2007, 2008-2012
Wheat (bu)	\$0.52
Corn (bu)	\$0.28
Sorghum (bu)	\$0.35
Barley (bu)	\$0.24
Oats (bu)	\$0.024
Upland cotton (lb)	\$0.0667
Rice (cwt)	\$2.35
Soybeans (bu)	\$0.44
Other oilseeds (cwt)	\$0.80
Peanuts (ton)	\$36.00
Dry peas (cwt)	-
Lentils (cwt)	-
Small chickpeas (cwt)	-
Large chickpeas (cwt)	-

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Commodity Program Rates				
Existing and New Target Prices				
Commodity	2007	2008	2009	2010-2012
Wheat (bu)	\$3.92	\$3.92	\$3.92	\$4.17
Corn (bu)	\$2.63	\$2.63	\$2.63	\$2.63
Sorghum (bu)	\$2.57	\$2.57	\$2.57	\$2.63
Barley (bu)	\$2.24	\$2.24	\$2.24	\$2.63
Oats (bu)	\$1.44	\$1.44	\$1.44	\$1.79
Upland cotton (lb)	\$0.7240	\$0.7125	\$0.7125	\$0.7125
Rice (cwt)	\$10.50	\$10.50	\$10.50	\$10.50
Soybeans (bu)	\$5.80	\$5.80	\$5.80	\$6.00
Other oilseeds (cwt)	\$0.1010	\$0.1010	\$0.1010	\$12.68
Peanuts (ton)	\$495.00	\$495.00	\$495.00	\$495.00
Dry peas (cwt)	-	-	\$8.32	\$8.32
Lentils (cwt)	-	-	\$12.81	\$12.81
Small chickpeas (cwt)	-	-	\$10.36	\$10.36
Large chickpeas (cwt)	-	-	\$12.81	\$12.81

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## The 2008 Farm Bill and the Commodity Title

- ◆ New revenue-based safety net called "Average Crop Revenue Election" Program (ACRE) as an option for 2009-2012
  - Crop-specific revenue safety net based on state revenue
  - Payment on revenue losses if
    - State crop revenue per acre below guarantee based on average yields and prices
- AND**
- Farm crop revenue per acre below benchmark based on average yields and prices
- Payment calculated on planted acres, not base acres
- Replaces counter-cyclical payment and adjusts other payments
  - Direct payment reduced 20%
  - Marketing loan rates reduced 30%

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## Farm Bill Commodity Program Average Crop Revenue Election Option

**ACRE State Guarantee**

$$\frac{\text{5-year Olympic average state yield}^*}{\text{5-year Olympic average state yield}^*} \times \frac{\text{2-year national average price}}{\text{2-year national average price}} \times 90\% = \frac{\text{ACRE state guarantee}}{\text{ACRE state guarantee}}$$

**Farm Benchmark Revenue**

$$\frac{\text{5-year Olympic average farm yield}^*}{\text{5-year Olympic average farm yield}^*} \times \frac{\text{2-year national average price}}{\text{2-year national average price}} + \frac{\text{crop insurance premium paid}}{\text{crop insurance premium paid}} = \frac{\text{farm benchmark revenue}}{\text{farm benchmark revenue}}$$

\* Yields per planted acre

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## Farm Bill Commodity Program Average Crop Revenue Election Option

**Actual State Revenue**

$$\frac{\text{average state yield}^*}{\text{average state yield}^*} \times \text{MAX} \left( \frac{\text{national average price}}{\text{national average price}}, \frac{\text{loan rate}}{\text{loan rate} \times 70\%} \right) = \frac{\text{actual state revenue}}{\text{actual state revenue}}$$

**Actual Farm Revenue**

$$\frac{\text{average farm yield}^*}{\text{average farm yield}^*} \times \text{MAX} \left( \frac{\text{national average price}}{\text{national average price}}, \frac{\text{loan rate}}{\text{loan rate} \times 70\%} \right) = \frac{\text{actual farm revenue}}{\text{actual farm revenue}}$$

\* Yields per planted acre

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### Farm Bill Commodity Program

#### Average Crop Revenue Election Option

If state revenue is less than the ACRE state guarantee and farm revenue is less than the farm benchmark revenue:

**ACRE Payment**

$$\text{MIN} \left( \frac{\text{ACRE state guarantee}}{\text{actual state revenue}} \cdot \frac{\text{ACRE state guarantee}}{\text{ACRE state guarantee}} \times 25\% \right) \times \left( \frac{\text{Oly. avg. farm yield}}{\text{Oly. avg. state yield}} \right) \times \text{planted acres} \times 85\% (83.3\%) = \text{ACRE payment}$$


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### ACRE Diagram

**IF**

**State ACRE Guarantee = 90% \* 5-Year Olympic Avg. State Yield \* 2-year Natl. Average Mkt. Price**  
*Restricted to <= 10% change/year*

>

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

**AND**

**Farm ACRE Benchmark = Farm's 5-Year Olympic Avg. Yield \* 2-year Natl. Average Mkt. Price + Ins Premium**

>

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

**THEN**

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

Note: All Yields are yields per planted acre. Planted acres in ACRE cannot exceed base acres.

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### State Yields for ACRE

#### Nebraska Yields per Planted Acre

Year	Corn	Irrigated Corn	Dryland Corn	Soybeans	Irrigated Soybeans	Dryland Soybeans	Wheat	Grain Sorghum
2003	138.8	180.9	74.8	40.1	53.4	30.0	44.1	47.0
2004	160.0	181.1	127.2	45.5	53.3	39.0	33.0	58.9
2005	149.5	180.5	104.3	50.1	58.7	42.6	37.1	64.0
2006	145.4	179.1	94.8	49.6	58.2	41.7	34.0	51.9
2007	156.6	177.5	122.2	50.1	54.9	46.9	41.1	67.2
2008	154.7	-	-	46.5	-	-	41.6	55.9
2003-2007 Oly. Avg.	150.5	180.2	107.1	48.4	55.5	41.1	58.2	37.4
2004-2008 Oly. Avg.	153.6	-	-	48.7	-	-	59.6	37.4

Source: USDA National Agricultural Statistics Service

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### Market Prices for ACRE

National Average Market Prices

Year	Corn	Soybeans	Wheat	Grain Sorghum
2006	\$3.04	\$6.43	\$4.26	\$3.29
2007	4.20	10.10	6.48	4.08
2008	4.75	10.45	7.00	4.20
2006-2007 Avg.	\$3.62	\$8.27	\$5.37	\$3.69
2007-2008 Avg.	4.48	10.28	6.74	4.14

Source: USDA National Agricultural Statistics Service and USDA World Agricultural Outlook Board

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### Comparison of ACRE and DCP

Estimated Average Nebraska Program Payments

Commodity	2009 ACRE Revenue Guarantee	2009 MAX ACRE Payment	Direct Payment	2009 CCP Price Guarantee	2009 MAX CCP Payment	Direct Payment
	<i>(per planted acre)</i>	<i>(per base acre)</i>	<i>(per base acre)</i>	<i>(per base acre)</i>	<i>(per base acre)</i>	<i>(per base acre)</i>
Corn	\$618.63	\$128.83	\$19.74	\$2.35	\$40.19	\$24.68
Soybeans	450.67	93.85	9.65	5.36	11.20	12.06
Wheat	226.90	47.25	12.58	3.40	20.44	15.73
Grain Sorghum	222.03	46.24	16.77	2.22	16.71	20.96

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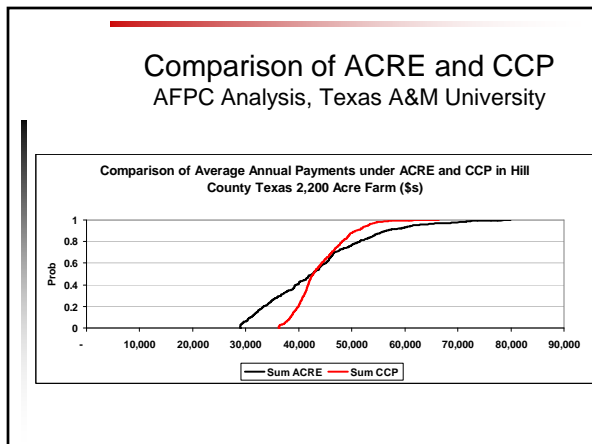
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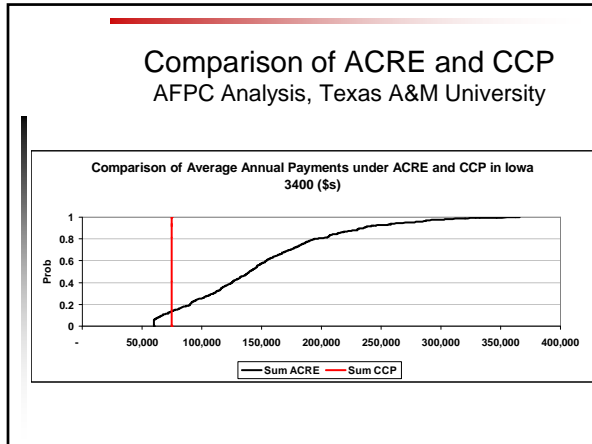
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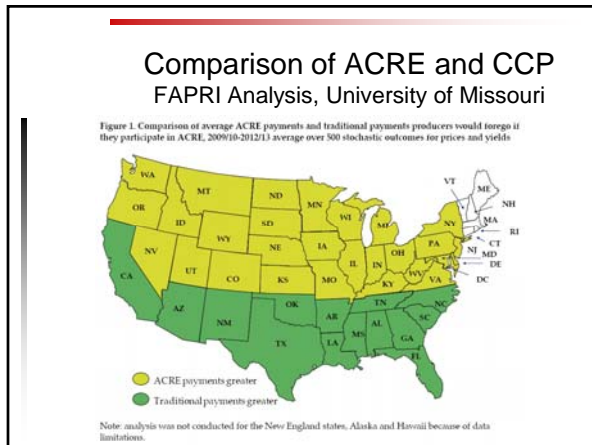
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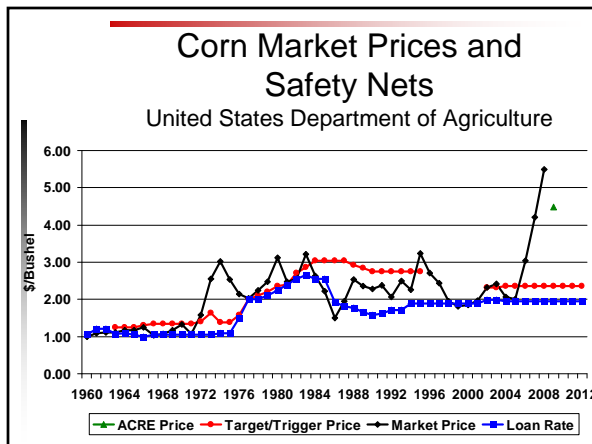
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### The 2008 Farm Bill and Disaster Assistance

- ◆ Supplemental Revenue Assistance Program (SURE)
  - Whole-farm all-crop revenue safety net based on farm revenue
  - Crop insurance (buy-up or CAT) or NAP purchase required
  - Guarantee level a function of insurance protection level
  - SURE payment available if
    - Farm is in a primary or contiguous county designated as disaster counties
  - OR
    - Farm has total production losses greater than 50% due to weather
- ◆ Other disaster assistance programs
  - Livestock Indemnity Program
  - Livestock Forage Disaster Program
  - Emergency assistance for livestock, honey bees, and farm-raised fish
  - Tree Assistance Program

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### Farm Bill Disaster Program

#### SURE Mechanics

SURE guarantee calculated at farm level as sum of individual crop revenue guarantees:

**SURE Insured Crop Guarantee**

$$115\% \times \frac{\text{ins. price election}}{\text{ins. price election}} \times \frac{\text{ins. yield election}}{\text{ins. yield election}} \times \text{MAX} \left( \frac{\text{adj. APH}}{\text{adj. APH}}, \frac{\text{CCP yield}}{\text{CCP yield}} \right) \times \frac{\text{crop acres}}{\text{crop acres}} = \text{SURE guarantee}^*$$

**SURE Non-Insurable Crop Guarantee**

$$120\% \times \frac{\text{NAP price election}}{\text{NAP price election}} \times \text{MAX} \left( \frac{\text{NAP yield}}{\text{NAP yield}}, \frac{\text{CCP yield}}{\text{CCP yield}} \right) \times \frac{\text{crop acres}}{\text{crop acres}} = \text{SURE guarantee}^*$$

\* Guarantee limited to no more than 90% of yield x price x crop acres.

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### Farm Bill Disaster Program

#### SURE Mechanics

If county is an agricultural disaster county or if farm suffers 50% or greater production loss:

**SURE Payment**

$$60\% \times \left( \frac{\text{SURE guarantee}}{\text{SURE guarantee}} - \frac{\text{farm revenue (crop revenue + 15\% x DP + ACRE + CCP + loan benefits + insurance payments + disaster payments)}}{\text{farm revenue (crop revenue + 15\% x DP + ACRE + CCP + loan benefits + insurance payments + disaster payments)}} \right) = \text{SURE payment}$$


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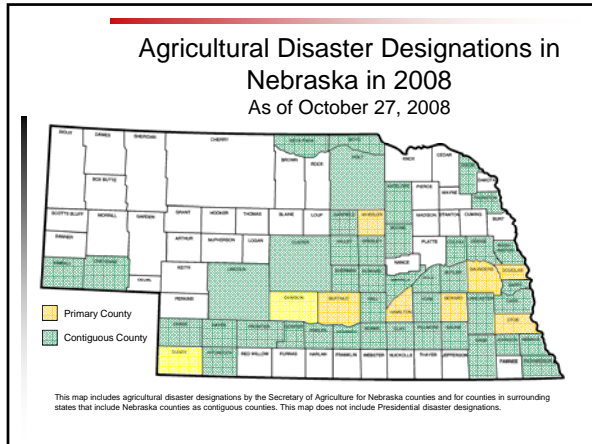
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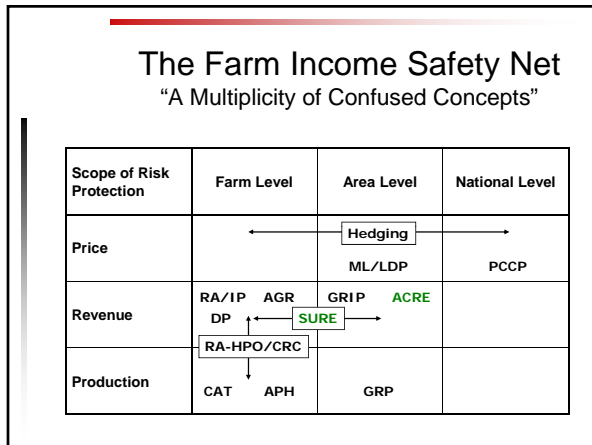
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- ### The 2008 Farm Bill Issues and Opportunities
- ◆ Shift in farm income safety net design
    - Analyze price projections and payment projections between price (ML, DP, and CCP) and revenue (ML, DP, ACRE) options
    - Analyze insurance, CAT, and NAP decisions for SURE participation
    - Analyze the impact of farm income safety net programs on risk management decisions

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**The New Farm Bill: New Decisions for Producers**

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