

Farm Security and Rural Investment Act of 2002

Title I, Subtitles A and B
Commodity Programs for Covered
Commodities

2002 Farm Bill

- Commodity provisions start with 2002 crop year and are similar to previous programs:
 - 14 covered commodities - including soybean/oilseeds
 - Allow update of bases and yields
 - Continue direct payments (similar to PFC under AMTA)
 - Initiates counter-cyclical payments (CCs) (similar to target price/deficiency payment program)
 - Planting flexibility except for FAV's and wild rice
 - DCP contracts will be annual signup - 2002 - 2007

The Safety Net

Elements of the 1996 and 1990 Farm Bills

- Marketing Assistance Loans and Loan Deficiency Payments
- Direct (Fixed) Payments
- Counter-Cyclical Payments

The Safety Net

Elements of the 1996 and 1990 Farm Bills

- Marketing Assistance Loans and Loan Deficiency Payments

Marketing Loan Program

- Overview of marketing loans
 - Underlying income support feature of farm programs
 - Non-recourse marketing loan program authorized in 1985 Farm Bill
 - Non-recourse loan programs around much longer
 - Marketing loan benefits are coupled to price and production
 - Income support tied to price
 - Not a price support (does not artificially support market prices)
 - As a non-recourse loan, the producer obligation is limited to the lower of the loan rate plus interest or the value of the loan commodity

Marketing Loan Program

- Overview of marketing loans
 - Loan rates fixed for 2002-2003, fall for most commodities for 2004-2007
 - National average loan rates “locked in” Farm Bill
 - Secretary has no discretion to raise or lower rates from year to year
 - Secretary is encouraged to adjust loan rates across counties when changing previous loan rates to new loan rates
 - Marketing loans include all covered commodities
 - Marketing loan benefits have been “amber box” payments under WTO commitments

Marketing Loan Rates

Commodity	1996 Farm Bill	2002 Farm Bill	
	2001 Rate	2002-2003	2004-2007
Corn (bu)	\$1.89	\$1.98	\$1.95
Sorghum (bu)	\$1.71	\$1.98	\$1.95
Barley (bu)	\$1.65	\$1.88	\$1.85
Oats (bu)	\$1.21	\$1.35	\$1.33
Wheat (bu)	\$2.58	\$2.80	\$2.75
Soybeans (bu)	\$5.26	\$5.00	\$5.00
Minor oilseeds (cwt)	\$9.30	\$9.60	\$9.30
Upland cotton (lb)	\$0.5192	\$0.52	\$0.52
Rice (cwt)	\$6.50	\$6.50	\$6.50

National Oilseed Loan Rates

Crops	2002 Farm Bill 2002 Rate
Oil-type sunflower (\$/lb)	0.0915
Other-type sunflower (\$/lb)	0.1210
Flaxseed (\$/lb)	0.0698
Canola (\$/lb)	0.0949
Rapeseed (\$/lb)	0.0947
Safflower seed (\$/lb)	0.1253
Mustard seed (\$/lb)	0.0988

Marketing Loan Program Mechanics

- Potential LDP or MLG is equal to the loan rate minus the PCP
- PCP is equal to the higher of two terminal market prices minus the county differential relative to each terminal market
 - Differences in county differentials to terminals similar to differences in loan rates across counties
 - PCP reflects terminal prices from previous day's market

Marketing Loan Program Mechanics

- Producer can take LDP any day after harvesting crop and before losing beneficial interest in the commodity
 - LDP equal to loan rate minus that day's PCP

OR...

Marketing Loan Program Mechanics

- Producer can take out marketing loan and receive loan rate
 - Loan can be repaid before maturity at lower of loan rate plus interest or PCP
 - A PCP can be locked in once for 60 days and the loan repaid anytime in that 60 days at that locked-in PCP
 - If not repaid in that 60 days, locked-in PCP expires and loan can be repaid at that day's PCP

OR

- Loan can be repaid with generic certificates
 - Certificates do not count against payment limit

OR

- Loan can be held to maturity and forfeited to government

The Safety Net

Elements of the 1996 and 1990 Farm Bills

- Marketing Assistance Loans and Loan Deficiency Payments
- Direct (Fixed) Payments

Direct (Fixed) Payments

- Overview of direct payments
 - Primary income support feature of 1996 Farm Bill
 - Payments are decoupled from price and production
 - Payment rates fixed through 2007
 - Rate fixed over life of program, not declining each year
 - Rate fixed per bushel, not fixed in total spending
 - Payments include commodities covered under 1996 Production Flexibility Contract (PFC) plus oilseeds
 - Payments have been “green box” payments under WTO commitments

Direct (Fixed) Payment Rates

Commodity	1996 Farm Bill 2002 Payment	2002 Farm Bill 2002-2007
Corn (bu)	\$0.261	\$0.28
Sorghum (bu)	\$0.314	\$0.35
Barley (bu)	\$0.202	\$0.24
Oats (bu)	\$0.022	\$0.024
Wheat (bu)	\$0.461	\$0.52
Soybeans (bu)	--	\$0.44
Minor oilseeds (cwt)	--	\$0.80
Upland cotton (lb)	\$0.0572	\$0.0667
Rice (cwt)	\$2.05	\$2.35

Direct (Fixed) Payment Timing

- For 2002
 - Payment as soon as practicable
 - Scheduled for Fall (not before October 1)
 - Payment equal to calculated direct payment less 2002 PFC payments already made
- For 2003-2007
 - Up to 50 percent of the direct payment beginning December 1 of the calendar year prior to harvest
 - Remainder of direct payment in October of the calendar year of harvest

Direct (Fixed) Payment Base

- Acreage base determined by producer
 - Average acreage for all covered commodities for 1998-2001
 - Includes planted and prevented planted acres for each crop over all four years
- OR
- Acreage eligible for 2002 PFC payment plus eligible oilseed acreage for 1998-2001
 - Includes planted and prevented planted acres for oilseeds over all four years
- Payment base equal to 85 percent of acreage base

Direct Payment Yield

- The direct payment yield for PFC crops (wheat, feed grains, cotton, rice) is the PFC (or assigned) yield.
- For oilseeds, the direct payment yield is the average yield for the farm (1998-2001), factored by the historical yield ratio to reflect 1981-1985 crops.

HISTORIC YIELD FOR OILSEEDS

- Factors are:
 - **.65** FLAX
 - **.80** SUNFLOWERS
 - **.78** SOYBEANS
 - **.78** All Other Oilseeds

The Safety Net

Elements of the 1996 and 1990 Farm Bills

- Marketing Assistance Loans and Loan Deficiency Payments
- Direct (Fixed) Payments
- Counter-Cyclical Payments

Counter-Cyclical Payments

- Overview of counter-cyclical payments
 - Nearly identical to target price/deficiency payment system in farm programs prior to 1996
 - Payments are decoupled from production, but not from price
 - Target prices fixed for 2002-2003, rise for most commodities for 2004-2007
 - Payments include commodities covered under 1996 Production Flexibility Contract (PFC) plus oilseeds
 - Payments are expected to be “amber box” payments under WTO commitments

Counter-Cyclical Target Prices

Commodity	1990 Farm Bill	2002 Farm Bill Target Prices	
	Target Price	2002-2003	2004-2007
Corn (bu)	\$2.75	\$2.60	\$2.63
Sorghum (bu)	\$2.61	\$2.54	\$2.57
Barley (bu)	\$2.36	\$2.21	\$2.24
Oats (bu)	\$1.45	\$1.40	\$1.44
Wheat (bu)	\$4.00	\$3.86	\$3.92
Soybeans (bu)	--	\$5.80	\$5.80
Minor oilseeds (cwt)	--	\$9.80	\$10.10
Upland cotton (lb)	\$0.729	\$0.7240	\$0.7240
Rice (cwt)	\$10.71	\$10.50	\$10.50

Counter-Cyclical Payment Calculation

1. If 12-month national average price is below loan

	target price
less	Direct payment
less	<u>National loan rate</u>
equals	counter-cyclical payment

Example: wheat – 12-month price = \$2.70

For 2002:	\$3.86
	- 0.52
	- <u>2.80</u>
	= \$0.54

Counter-Cyclical Payment Calculation

2. If 12-month national average price is above loan

	target price
less	Direct payment
less	<u>National average price</u>
equals	counter-cyclical payment

Example: wheat – 12-month price = \$3.30

For 2002:	\$3.86
	- 0.52
	- <u>3.30</u>
	= \$0.04

Counter-Cyclical Payment Timing

- For 2002-2006
 - First partial payment
 - Up to 35 percent of the projected counter-cyclical payment
 - Payment made in October of the year of harvest (to the extent practicable for 2002)
 - Second partial payment
 - Up to 70 percent of the projected counter-cyclical payment minus the first partial payment
 - Payment made in the following February
 - Final payment
 - The actual counter-cyclical payment minus the first two partial payments
 - Payment made as soon as practicable after the end of the 12-month marketing year for the crop

Commodity Marketing Years

Wheat

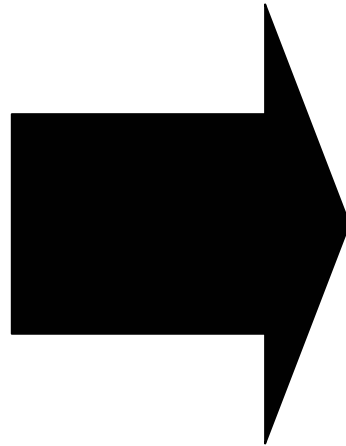
Barley

Oats

Canola

Rapeseed

Flaxseed



– June of year crop is harvested through next May

Commodity Marketing Years (cont'd)

Corn

Sorghum

Soybeans

Sunflower seed

Safflower

Mustard seed



September

of year crop is

harvested through

next August

Counter-Cyclical Payment Base

- Acreage base determined by producer
 - Average acreage for all covered commodities for 1998-2001
 - Includes planted and prevented planted acres for each crop over all four years
- OR
- Acreage eligible for 2002 PFC payment plus average oilseed acreage for 1998-2001
 - Includes planted and prevented planted acres for oilseeds over all four years
- Payment base equal to 85 percent of acreage base

Counter-Cyclical Payment Yield

- A partially updated average yield, for owners who establish bases using the 1998-2001 acreage history **and choose to** update payment yields for *all* covered commodities on a farm.
 - Producers have a one time opportunity to update yields for CC payment purposes.
 - The CC yield update applies to all covered commodities on the farm, including oilseeds.

70% Method for CC Yield Updates

- The sum of:
 - the direct payment yield for the covered commodity
 - 70% of the difference between the 1998-2001 actual yield for the covered commodity and the direct payment yield for the covered commodity

93.5% Method For CC Yield Updates

Determined by multiplying 93.5% times the 1998-2001 calculated yield for the covered commodity.

Counter-cyclical (CC) Yield Updates

- In all other situations, the counter-cyclical payment yield is equal to the direct payment yield.

Minimum Actual Yield

- Minimum = 75% of the county average yield.
- Minimum yields are used when:
 - actual yield is less than 75% of county average
 - production evidence is missing or unacceptable.

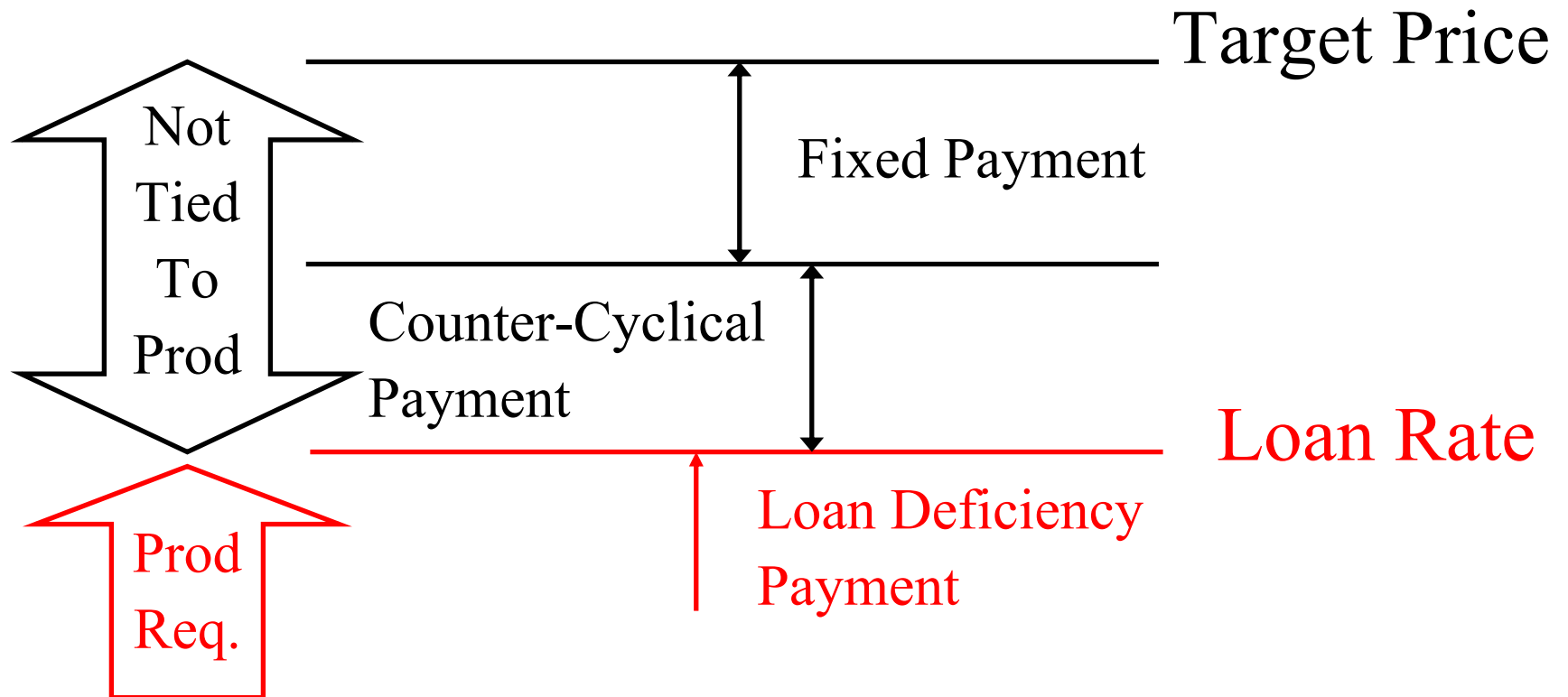
The Safety Net - Summary

- The three parts of the safety net sum together to support income based on the “target price”
- But, each part of the safety net is tied to a separate base
 - Marketing loan benefits are based on bushels of actual production
 - Fixed payments are based on 85 percent of “old” or “new” acreage and “old” yields
 - Counter-cyclical payments are based on 85 percent of “old” or “new” acreage and “old” or “new” yields
- And, the total support may be reduced to meet WTO commitments

The Safety Net – WTO Issues

- Section 1601 (e)
 - Farm income support payments may be less than advertised if supports must be adjusted downward to maintain compliance with WTO commitments of \$19.1 billion per year in “amber box” programs
 - *“If the Secretary determines that expenditures under subtitles A through E that are subject to the total allowable levels ... will exceed such allowable levels for any applicable reporting period, the Secretary shall, to the maximum extent practicable, make adjustments... to ensure that such expenditures do not exceed such allowable levels.”*
 - The Secretary must report any determinations and adjustments to both Agriculture Committees before making any adjustments

Structure of Crop Payments



Payment Limitations

- Established individual payment limitations for:
 - Direct payments
 - Counter-cyclical payments
- Continues 3-entity rule:
 - Allows a producer to get 1 full limit and one-half of two others from different entities

Payment Limitations, Cont'd

Payment Type	Covered Commodities
DIRECT	\$ 40,000
COUNTER-CYCLICAL	\$ 65,000
MARKETING LOAN GAINS and/or LDP's	\$ 75,000

2002-2007 Acreage Reports

- **FINAL** Direct Payments and **ALL** Counter-Cyclical payments will not be made until **all cropland** is reported and certified.

Beneficial Interest

- A producer is considered to have beneficial interest in the commodity when **ALL** of the following remain with the producer:
 - control of the commodity
 - risk of loss
 - title to the commodity

Available Options

- **Option #1** Retain 2002 PFC Acreage
- **Option #2** Retain 2002 PFC Acreage
plus (minimum) oilseeds without PFC offset
- **Option #3** Retain 2002 PFC Acreage
plus (maximum) oilseeds with PFC offset
- **Option #4** Average of 1998-2001
acresage history
- **Option #5** Retain 2002 PFC Acreage
plus (variable) oilseeds with PFC offset

Base Options

- The options to be used for election of base acres are as follows:

–**Option 1:** Retain 2002
PFC Acreage

Base Options, cont'd

–**Option 2:** Retain 2002 PFC acreage, plus *minimum* oilseeds **without** PFC offset

- oilseed acreage is calculated for each specific oilseed crop

Base Options, Cont'd

- **Option 3:** Retain 2002 PFC acreage, plus *maximum* oilseeds **with** PFC offset.

Base Options, Cont'd

- **Option 4:** Average of 1998 through 2001 acreage history for all covered crops.
 - All four years are used in the average without regard to the number of years the commodity was planted
 - Only option that allows update of all yields

Base Options, Cont'd

- **Option 5:** Retain PFC acreage and add *selected* oilseed acreage **with** *partial* PFC offset.

Base Options, Cont'd

- Owners of a farm will have a ***one*** time opportunity to make an election of base acreage on a farm
- Failure of an owner(s) to make a base election by the prescribed time period will result in the farm's base being defaulted to the 2002 PFC base plus *minimum* oilseeds, if applicable

Base Options, cont'd

- An owner(s) cannot elect one base option for a certain commodity and another base option for a different commodity on the same farm
- The total base acres on a farm cannot exceed the cropland on the farm

Base Options, Cont'd

- Oilseed base acreage is crop specific
- The total eligible oilseed base acreage for the farm cannot exceed each specific oilseed's average history acreage for the farm
- The owner(s) of a farm shall elect which oilseed base(s) to add to the farm

Method for Determining Eligible Oilseed Acres

1. The eligible oilseed acreage for each of the 1998 through 2001 crop years is the planted and prevented planted acres of covered commodities minus the 2002 PFC acres. If negative, then zero.
2. Eligible oilseed acres is the 4-year average of the above, except that eligible oilseeds may not exceed the 4-year average of planted and prevented planted oilseed acres.

BASE OPTIONS 1, 2, 3, 5

DIRECT PAYMENT YIELDS

- PFC Yields (Wheat, Feed Grains, Cotton, Rice)
- Oilseeds = Average 1998-2001 Yields, Adjusted to Historic Yield (reflective of 1981-1985 crop years)
- Direct Payment Yields May NOT Be “Updated”

BASE OPTIONS 1, 2, 3, 5

COUNTER-CYCLICAL PAYMENT YIELDS

- May NOT Be “Updated” with Base Options 1,2,3,5
- Counter-Cyclical Yield = Direct Payment Yield

BASE OPTION 4

COUNTER-CYCLICAL PAYMENT YIELDS

- May Update Yield for Counter-Cyclical Payments with base option 4
- ALL Crop Yields on Farm Updated (or NONE)
- SAME Update Method for ALL Commodities

BASE OPTION 4

COUNTER-CYCLICAL PAYMENT YIELD PARTIAL UPDATE METHODS

- 70.0% Partial Update (Direct Yield + 70% of Difference Between Direct and Average Yield)
- 93.5% Partial Update (Average Yield X .935)
- SAME Method Applies to ALL Crops