

Update on U.S. Farm Commodity Policy

Farm Policy Team
Market and Trade Economics Division



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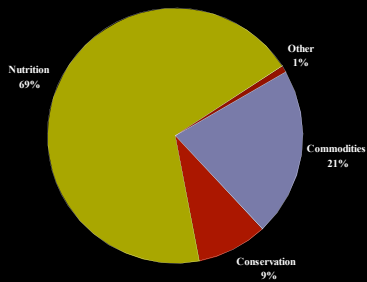
2008 Farm Act: Broad and Complex Legislation



- Commodity Programs
- Conservation
- Trade
- Nutrition Programs
- Credit
- Rural Development
- Agricultural Research, Education, and Extension and Related Matters
- Forestry
- Energy
- Horticulture and Organic Agriculture
- Livestock
- Miscellaneous

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Commodity programs account for just over 20 percent of Farm Act budget allocations (FY 2008-17)



Source: USDA, ERS using Congressional Budget Office estimates.

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Key Commodity Programs

- Price support programs
 - Dairy
 - Sugar
- Income support programs
 - Marketing loans
 - Direct payments
 - Counter-cyclical payments
- Risk management programs
 - ACRE
 - Crop Insurance
 - SADA



Marketing Loans



- Program operation
 - Nonrecourse loans
 - Marketing loan gains
 - Loan deficiency payments
- Loan rates fixed



2008 Changes in Marketing Loans

- Loan program
 - rates reduced for dry peas and lentils, new rate for large chickpeas in 2009
 - rates increased for wheat, barley, oats other oilseeds, graded wool and honey in 2010-12
 - 30-day rolling average for calculating loan repayment rates, with Sec authority to adjust
- Cotton
 - reduction in storage payments
 - establishes "usage" payment to domestic mills



Direct payments

- Do not depend on current production or market prices
 - fixed base
 - fixed payment yield
 - fixed payment rates



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2008 Changes in Direct Payments

- Payment acres reduced from 85% to 83.3% of base in 2009-11
- Maintains planting restrictions on base acres
 - Except for limited pilot project in Midwest for fruits and vegetables for processing

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Counter-cyclical payments

- Do not depend on current production
 - fixed base
 - fixed payment yield
- But depend on market prices



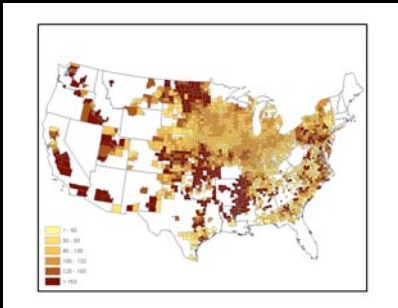
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2008 Changes in Counter-Cyclical Payments

- Target price for cotton reduced
- Dry peas, lentils, small chickpeas, and large chickpeas added in 2009
- Target prices for wheat, grain sorghum, barley, oats, soybeans increased in 2010



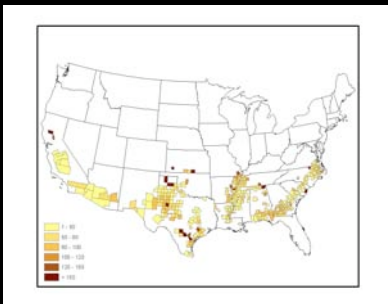
Planting Flexibility: Percent of Corn Base Acres Planted to Corn in 2007



Source: ERS calculations with FSA and NASS data



Planting Flexibility: Percent of Cotton Base Acres Planted to Cotton in 2007



Source: ERS calculations with FSA and NASS data



New in 2008: ACRE Program

- Adjusted Crop Revenue Election
 - State-based revenue guarantee on acres planted
 - Farm revenue must also fall below farm-level benchmark revenue
 - Give up CCPs, 20% reduction in DPs, and 30% reduction in loan rate



Crop Insurance Continues

- Crop insurance primarily guards against risk of yield losses
- USDA's Risk Management Agency subsidizes
 - Premiums
 - Administrative costs (administrative and operating reimbursement)
 - Delivery costs (standard reinsurance agreement)



New in 2008: Supplemental Agricultural Disaster Assistance (SADA)

- Assists farmers and ranchers who lose crops, livestock or trees due to disasters such as floods or drought
- In counties declared "disaster counties" by Secretary of Agriculture
 - includes counties contiguous to disaster counties and any farms with losses in normal production of more than 50%.

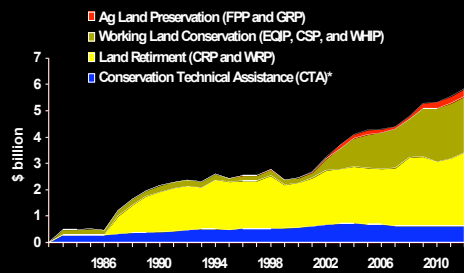


Conservation funding continues shift toward working land

- Programs on land used for agricultural production (working land)
 - Conservation compliance
 - Environmental Quality Incentives Program (EQIP)
 - Conservation Stewardship Program (CSP)
 - Grassland Reserve Program (GRP)
 - Wildlife Habitat Incentives Program (WHIP)
 - Farmland Preservation Program (FPP)
- Land retirement
 - Conservation Reserve
 - Wetlands Reserve



Working Lands Programs Gaining as Share of USDA Conservation Expenditures



Source: Office of Budget and Policy Analysis, USDA, and Congressional Budget Office



2008 Changes in Conservation

- CRP reduced to 32 million acres
- Increased funding for EQIP
- Increased funding for CSP, enroll nearly 115 million acres by 2017
- Focuses participation on producers
 - individual's adjusted gross income may not exceed \$1 million dollars, unless at least two-thirds of that income is derived from farming, ranching, or forestry.



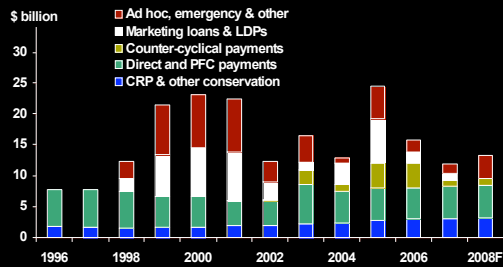
New Payment and Eligibility limits in 2008

- **Payment limits per individual:**
 - No limits for Marketing Loan Benefits
 - Direct Payments -- \$40,000
 - Counter-Cyclical Payments -- \$65,000
 - ACRE -- \$65,000 + DPs foregone

- **Adjusted gross income eligibility test:**
 - Non-farm income >\$500,000--ineligible for MLBs, DPs, CCPs, ACRE, MILC, crop disaster assistance, NAP
 - Farm income >\$750,000--ineligible for DPs
 - Total income >\$1 million--ineligible for conservation, disaster assistance (SADA), agricultural risk management assistance

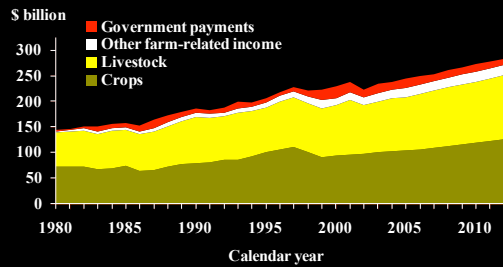
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Direct government payments to producers by program



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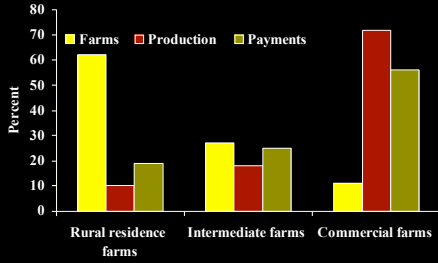
Direct government payments account for a small share of farm cash receipts



Source: USDA, Economic Research Service, Farm Income Data.
<http://www.ers.usda.gov/Data/FarmIncome/>, February 2008

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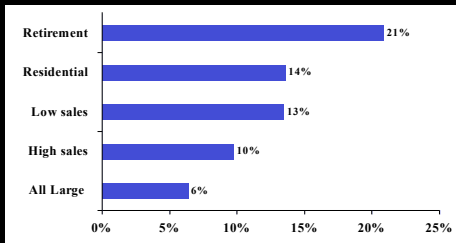
Farms vary in the share of government payments they receive



Source: 2006 USDA Agricultural Resource Management Survey, Economic Research Service, USDA.



...but for small farms that receive government payments, they make up a larger share of gross receipts



Source: 2006 USDA Agricultural Resource Management Survey, Economic Research Service, USDA.



The 2008 Farm Bill Side-by-Side Comparison
<http://www.ers.usda.gov/FarmBill/2008>



Website

Economic Research Service
U.S. Department of Agriculture

<http://www.ers.usda.gov>