

# The 2002 Farm Bill: Options and Implications

---

*Presented at the  
12th Annual Outlook for Texas Rural Land Markets  
May 3, 2002*

George Bush Presidential Conference Center  
Texas A&M University

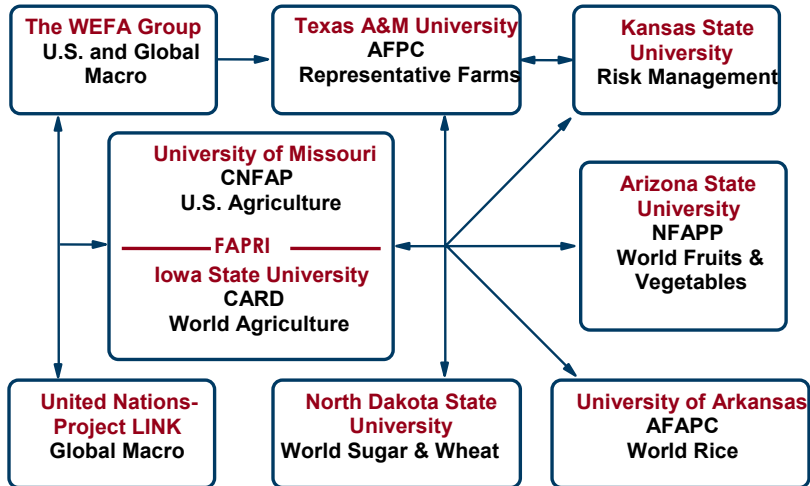
**Abner W. Womack, Director**  
Agricultural & Food Policy Center  
Texas A&M University  
<http://www.afpc.tamu.edu/>

## Material to Cover

---

- Review of Current Situation
- 2002 Farm Bill - Major Components
- Implications for Agriculture and Representative Farms

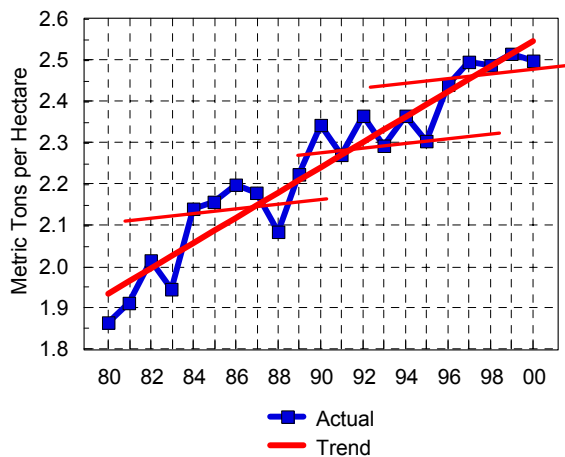
# FAPRI-AFPC - Consortium



## World Grain & Oilseed Yields

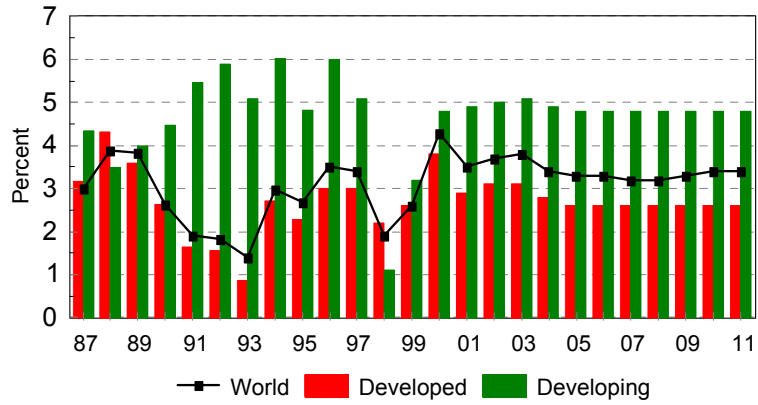
FAPRI

- On a global basis, yields remain close to trend for fifth consecutive year.
- Very similar to the 1984-87 period.
- If estimates are realized, supply pressures will continue to weigh on the market.

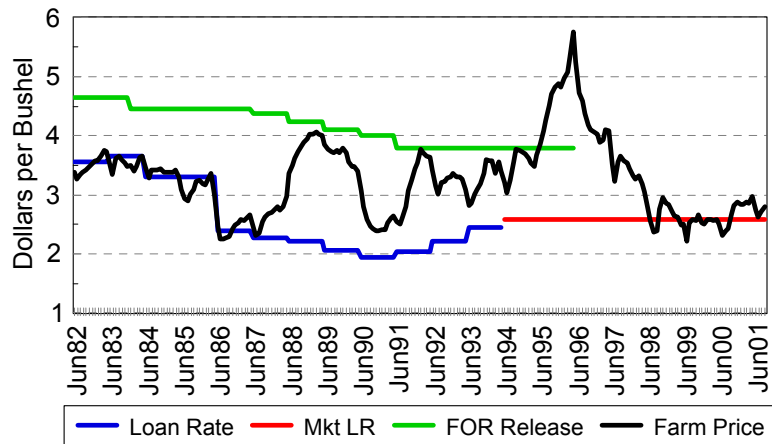


## Real GDP growth

FAPRI



## U.S. Monthly Wheat Price



## 2002 Farm Bill

- **80 Percent Increase in Conservation.**
- **Strong Farm Safety Net.**
- **More Energy.**
- **More Rural Development.**
- **Balanced, Broad-Based Support.**



## 2002 Farm Bill

- **Crop Supports through Fixed and Countercyclical Payments, Loan Rates and Target Prices.**
  - Crop Payments -- continued
  - Load Rate -- continued
  - Fixed Payments -- continued
  - Target Price/Counter Cyclical Payment -- new

## 2002 Farm Bill

- **Yield Updates.** Makes yield updates available to producers across the country.
- **Payment Limitations.** Retains current rules on husbands & wives, 3-entities, and "actively engaged" producers. Retains the use of generic certificates in the loan program. Requires the Secretary of Agriculture to establish procedures to clarify and better identify the payments to individual producers.
- **Conservation Practices for Soil and Water.** Largest increase in farm bill history for these voluntary conservation measures taken by farmers and landowners -- provides an 80 percent increase in budget support over current levels.

## 2002 Farm Bill

<b>Loan Rates, Direct Payments and Target Prices for Covered Commodities</b>					
	<i>Loan Rate</i>		<i>Direct Payment</i>	<i>Target Price</i>	
	<i>2002-2003</i>	<i>2004-2007</i>	<i>2002-2007</i>	<i>2002-2003</i>	<i>2004-2007</i>
Corn (bu)	\$1.98	\$1.95	\$0.28	\$2.60	\$2.63
Sorghum (bu)	\$1.98	\$1.95	\$0.35	\$2.54	\$2.57
Barley (bu)	\$1.88	\$1.85	\$0.24	\$2.21	\$2.24
Oats (bu)	\$1.35	\$1.33	\$0.024	\$1.40	\$1.44
Wheat (bu)	\$2.80	\$2.75	\$0.52	\$3.86	\$3.92
Soybeans (bu)	\$5.00	\$5.00	\$0.44	\$5.80	\$5.80
Minor Oilseeds (lb)	\$0.0960	\$0.0930	\$0.0080	\$0.0980	\$0.1010
Cotton (lb)	\$5.200	\$5.200	\$0.0667	\$0.7240	\$0.7240
Rice (cwt)	\$6.50	\$6.50	\$2.35	\$10.50	\$10.50

## 2002 Farm Bill

---

- **Dairy:** Maintains a permanent \$9.90 Milk Price Support Program and establishes a 3 1/2 year National Dairy Program to provide assistance to all U.S. producers. The program will provide a federal payment each month equal to 45 percent of the difference between \$16.94 and the Boston Class I price. Payments are made on up to 2.4 million pounds of production for a producer annually.
- **Peanuts:** Provides a quota buyout of 11 cents a pound per year over 5 years (55 cents total); provides a target price of \$495/ton; and allows for the payment of storage costs for peanuts under loan. Provides \$355/ton loan rate and \$36/ton fixed payment rate.

## 2002 Farm Bill

---

- **Sugar:** Eliminates the one-cent a pound loan forfeiture penalty and gives authority to the Secretary to establish quota allotments.
- **Wool and Mohair:** Provides marketing loans or loan deficiency payments based on a loan rate of \$1.00 per pound for graded wool, \$.40 per pound for non-graded wool, \$4.20 per pound for mohair and \$.40 per pound for unshorn pelts.
- **Honey:** Provides marketing loans or loan deficiency payments based on a loan rate of \$.60 per pound.
- **Apples:** Provides assistance for apple producers who have suffered low market prices.

## 2002 Farm Bill

- **Payment Limitations:**

- reduces the limit on direct payments from \$50,000 to \$40,000;
- Reduces the limit on counter-cyclical payments from \$75,000 to \$65,000;
- Reduces limit on LDPs and MLGs from \$150,000 to \$75,000;
- Contains a separate payment limitation for the peanut program;
- Retains current rules on spouses, 3-entities, and actively engaged requirement.
- Adopts a \$2.5 million adjusted gross income cap on eligibility for participation in farm programs;
- Retains the use of generic certificates in the loan program.
- Total dollar limitation is reduced from \$550,000 in the House bill to \$360,000 in the conference framework.

## 2002 Farm Bill

- **Title II - Conservation:**

- Conservation Reserve Program -- \$1.517 billion
- Wetlands Reserve Program -- \$1.5 billion
- Grasslands Reserve Program -- \$254 million
- Farmland Protection Program -- \$985 million
- Wildlife Habitat Incentives Program -- \$700 million
- Environmental Quality Incentives Program -- \$9 billion
- Water Conservation Program -- \$600 million
- Conservation Security Program -- \$2 billion
- Small Watershed Rehabilitation Program -- \$275 million
- Underserved States -- \$50 million
- Desert Terminal Lakes -- \$200 million

- **Total --**

**\$17.1 Billion**

## 2002 Farm Bill

---

- **Title III -- Trade** **\$1.144 billion**
- **Title IV -- Nutrition** **\$6.4 billion**
- **Title VI -- Rural Development** **\$1.03 billion**
- **Title VII -- Research** **\$1.3 billion**
- **Title IX -- Energy** **\$405 million**

## Summary Points

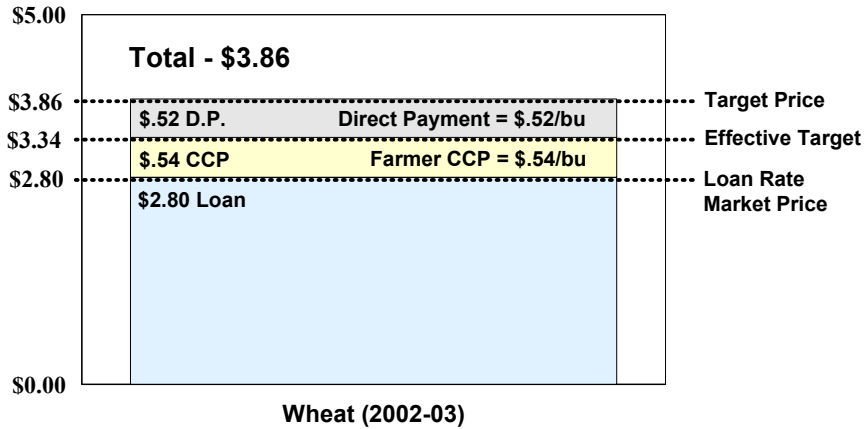
---

### **Support to Crop Farmers in Three Categories**

- **Loan Rate**
  - Marketing loan
  - Must produce to receive
  - Coupled payment
- **Direct Payment**
  - Decoupled payment
  - Not tied to production
  - Check received each year
- **Counter Cyclical Payment**
  - Decoupled payment
  - Not tied to production
  - Formula for payment

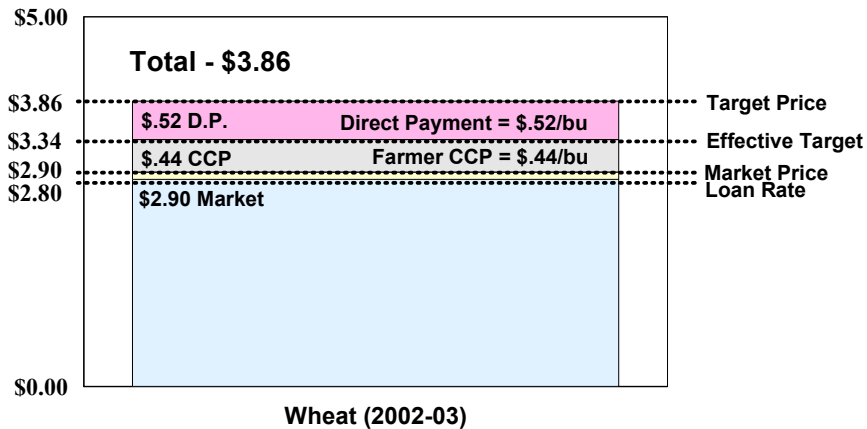
# Summary Points

## Case 1



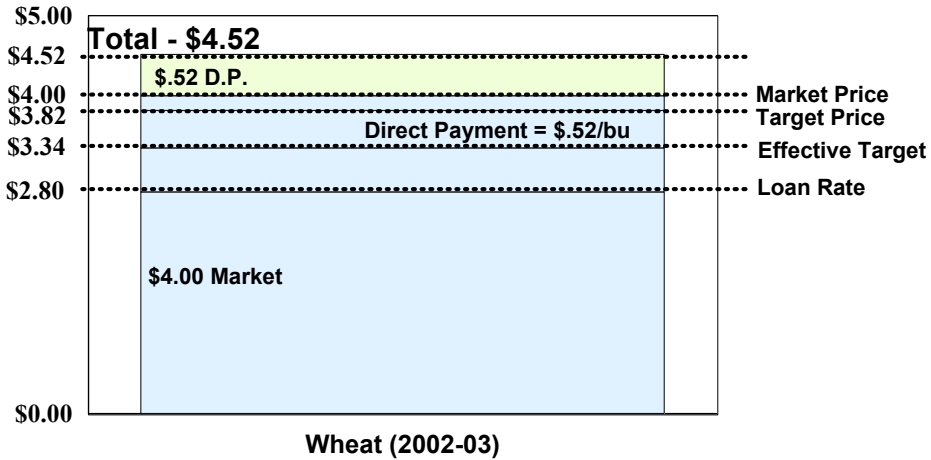
# Summary Points

## Case 2



# Summary Points

## Case 3



# Summary Points

## Risk on the Production Side

Farmer	U.S.	Market Price	Loan	DP	CCP	Total
Good Crop	Good Crop	Low	$\$2.80 + \$0.52 + \$0.54 = \$3.86$			
Good Crop	Bad Crop	High	--	\$0.52	--	$= \$4.52$
Bad Crop	Good Crop	Low	$\$2.80 + \$0.52 + \$0.54 = \$3.86$ (1/2 crop)			\$2.46 average
			$\$0.52 + \$0.54 = \$1.06$ (1/2 crop)			
Bad Crop	Bad Crop	High	$-- + \$0.52 + -- = \$4.52$ (1/2 crop)			\$2.52 average
			$-- + \$0.52 + -- = \$0.52$ (1/2 crop)			

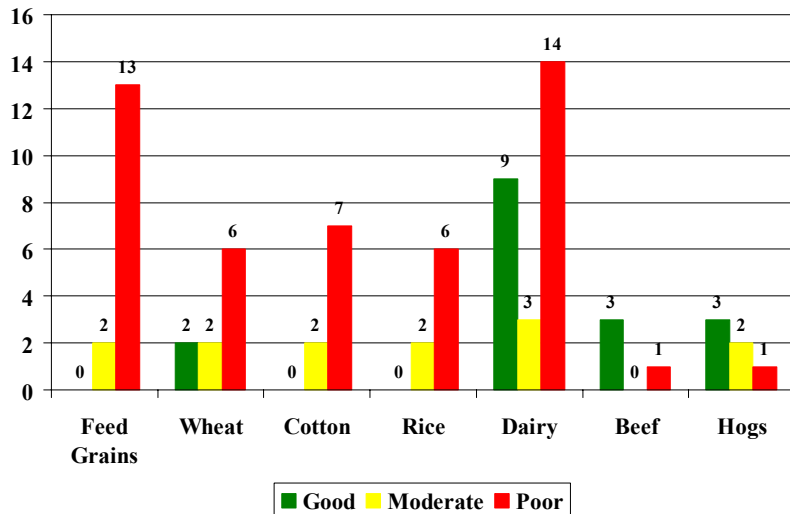
# Summary Points

- **Substantially more support for the crop sector in bad years**
  - Highest support when prices are low
  - Less support as market price increases
  - Counter cyclical
- **Substantial improvement in financial structure of crop farms**
- **Prices**
  - Not a price enhancing program
  - Most new funds are decoupled
  - Likely price patterns
    - Low Side Longer
    - High Side Longer
    - Whether High or Low Considerable Variability

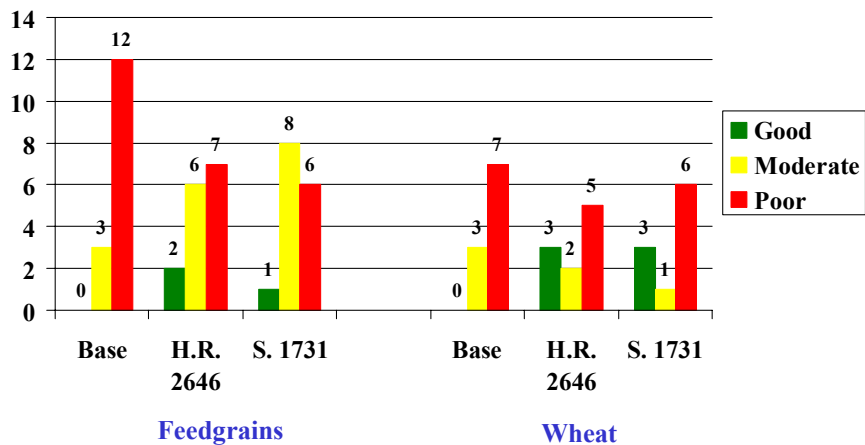
## US Commodity Prices

	1986-90	1991-95	1996-00	Baseline 2002-06	HR 2646 2002-06
Wheat, per Bu.	\$3.01	\$3.50	\$3.10	\$3.09	\$3.06
Corn, per Bu.	\$2.12	\$2.49	\$2.15	\$2.17	\$2.13
Soybean, per Bu.	\$5.90	\$5.95	\$5.63	\$4.92	\$4.97
Cotton, per Lb.	\$0.60	\$0.64	\$0.65	\$0.48	\$0.50
Rice, per Cwt.	\$6.39	\$7.48	\$8.09	\$7.07	\$6.99
Sorghum, per Bu.	\$1.91	\$2.35	\$1.91	\$1.95	\$1.90
NE Steers, per Cwt.	\$69.83	\$72.20	\$65.61	\$73.69	\$73.64
Hogs, per Cwt.	\$51.97	\$46.29	\$44.85	\$40.70	\$40.57
All Milk, per Cwt.	\$12.91	\$12.80	\$14.06	\$12.47	\$12.46

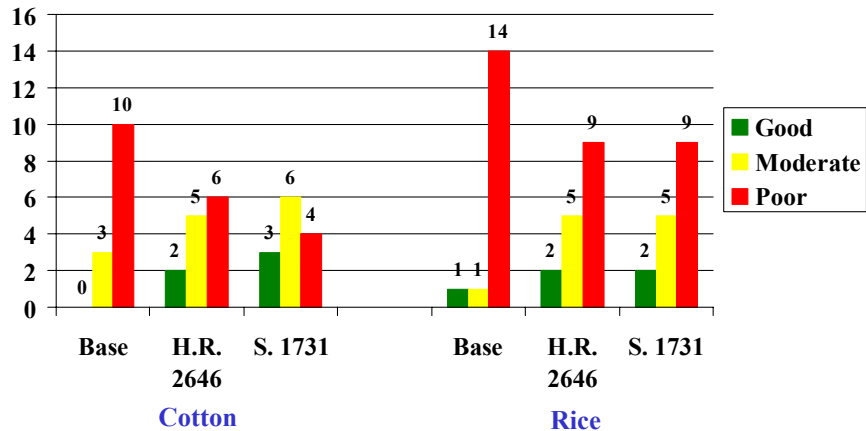
## Summary of Overall Economic Viability for Representative Crop, Dairy, and Livestock Farms 2001-2005



## Financial Condition of Representative Feedgrain and Wheat Farms Under Continuation of the FAIR Act, H.R. 2646, and S. 1731, 2002-2006



## Financial Condition of Representative Cotton and Rice Farms Under Continuation of the FAIR Act, H.R. 2646, and S. 1731, 2002-2006



## Summary Points

- **Livestock**
  - Benefits from low grain and protein prices
  - Considerable price risk on input side
    - Droughts
    - High Demand
- **Exports**
  - Positive with marketing loan
- **Consumers**
  - Positive with feed and livestock supply. Short term risk
- **Government Cost**
  - Higher in lean years by design
- **Land Area**
  - Very little estimated shift.
  - Most new support is decoupled

# Summary Points

---

- **Payment Limitation**
  - Not likely a major problem with 3 entity and certificates
  - Will likely resurface and could be a problem especially in cotton and rice.
- **Environment**
  - Future area of consideration for enhancement payments
- **Rural Development**
  - Future area of consideration for enhancement payments
- **Reserves**
  - Future area of debate in the event of short supplies