



The Food, Conserva tion & Energy Act of 2008

Larry D. Sanders
Department of Agricultural
Economics
Oklahoma State University
13 Jul 08



[Thanks to Jim Pease, Virginia Tech]

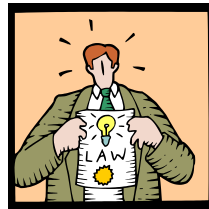
The US Economy



The Sub-prime Housing Mess



High Prices
—Food, Fuel, Fertilizer, ...



New
Farm
Bill

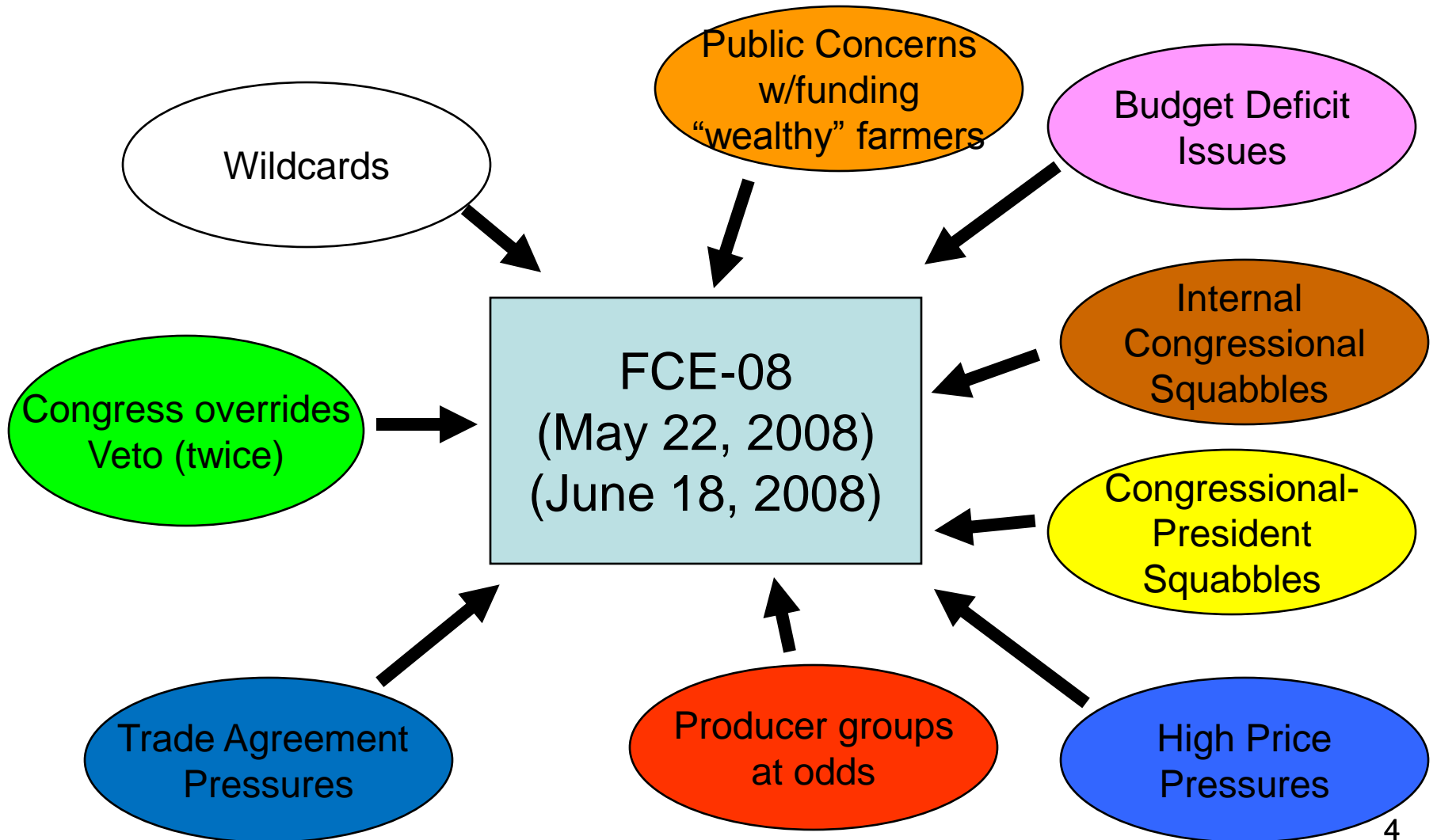


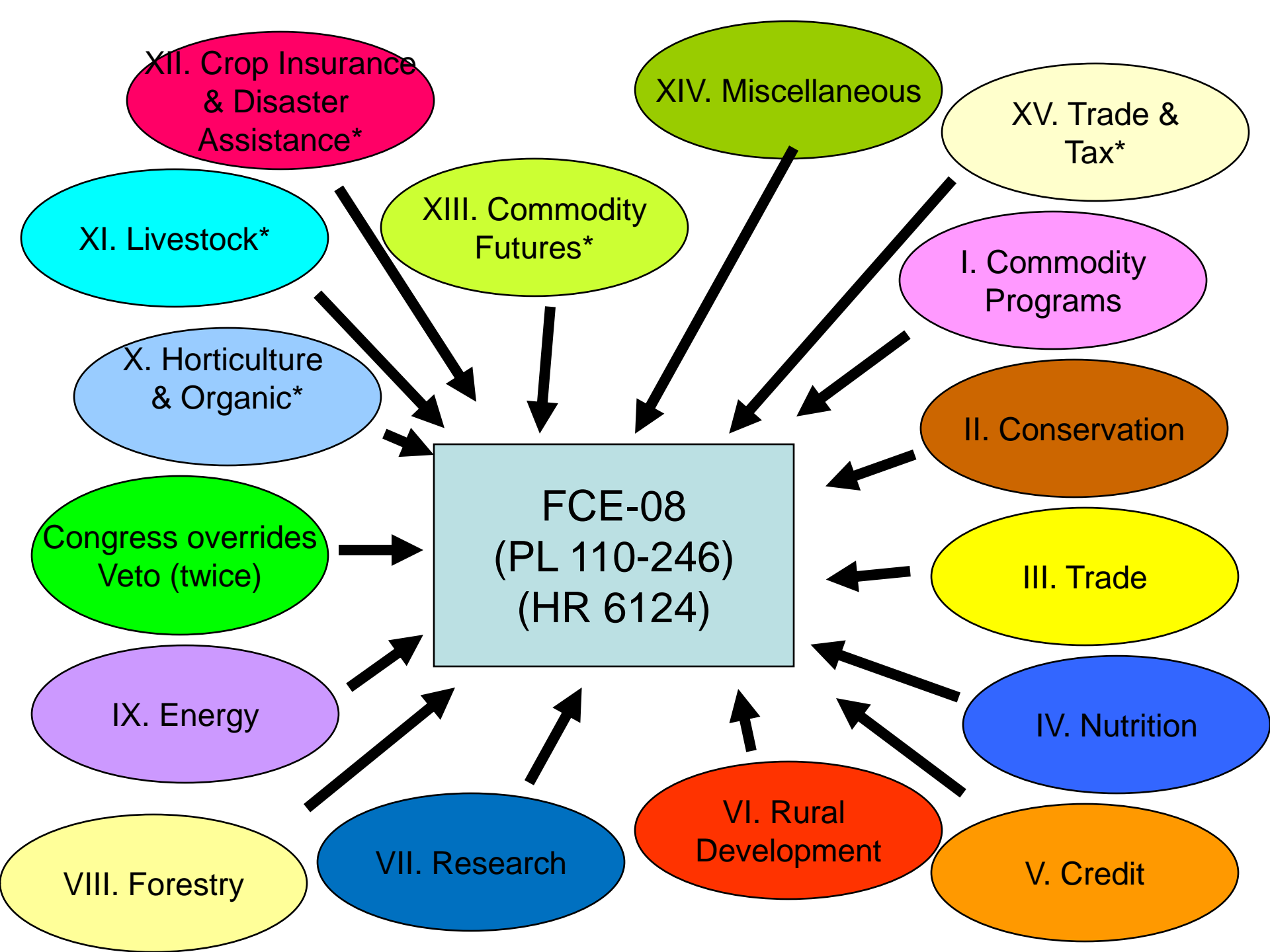
Global Demand/Instability

The Need to Look Back & Move Forward



Finally, a new farm bill ...





XII. Crop Insurance & Disaster Assistance*

XIV. Miscellaneous

XV. Trade & Tax*

XI. Livestock*

XIII. Commodity Futures*

I. Commodity Programs

X. Horticulture & Organic*

II. Conservation

Congress overrides Veto (twice)

FCE-08
(PL 110-246)
(HR 6124)

III. Trade

IX. Energy

IV. Nutrition

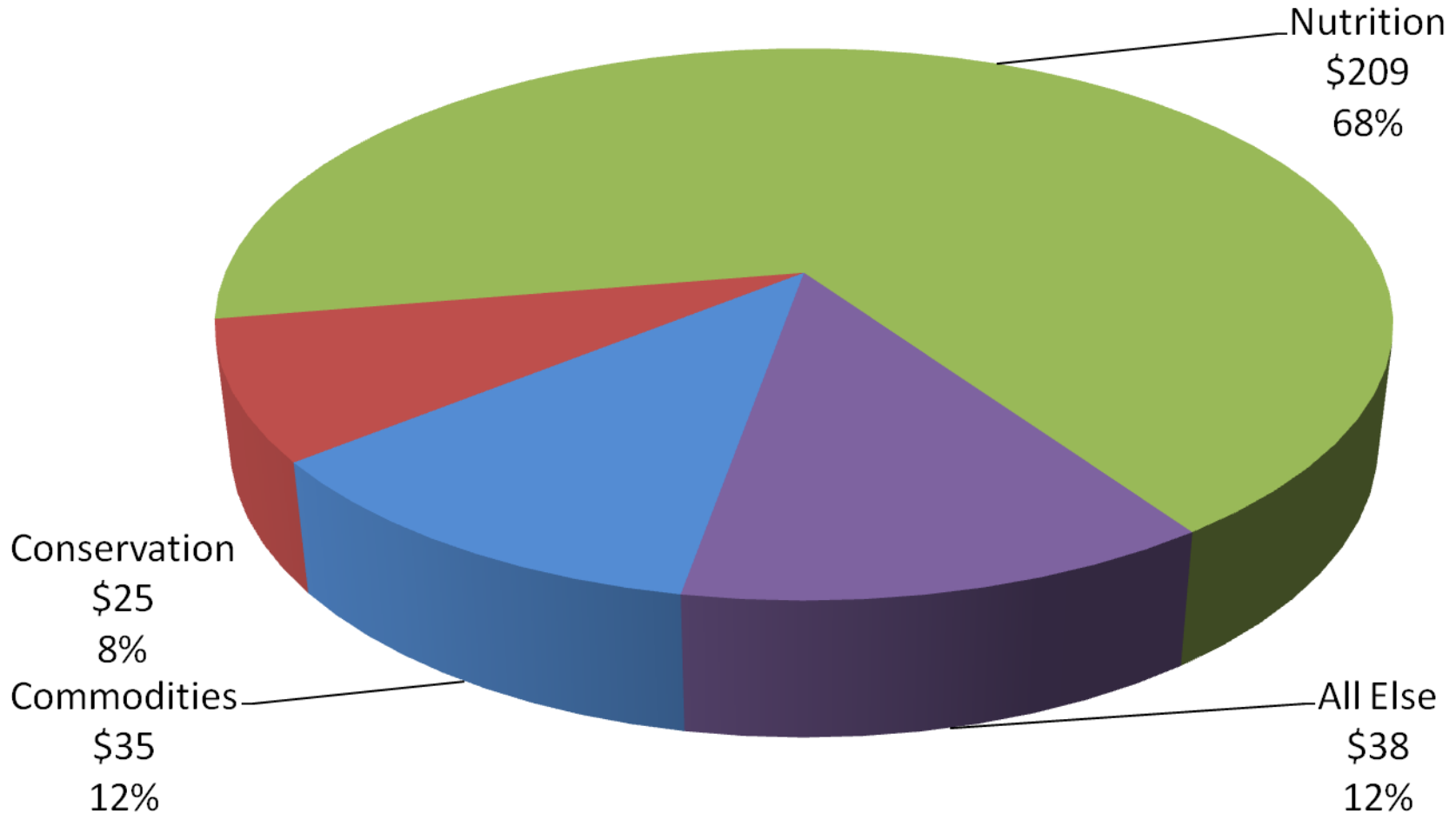
VIII. Forestry

VII. Research

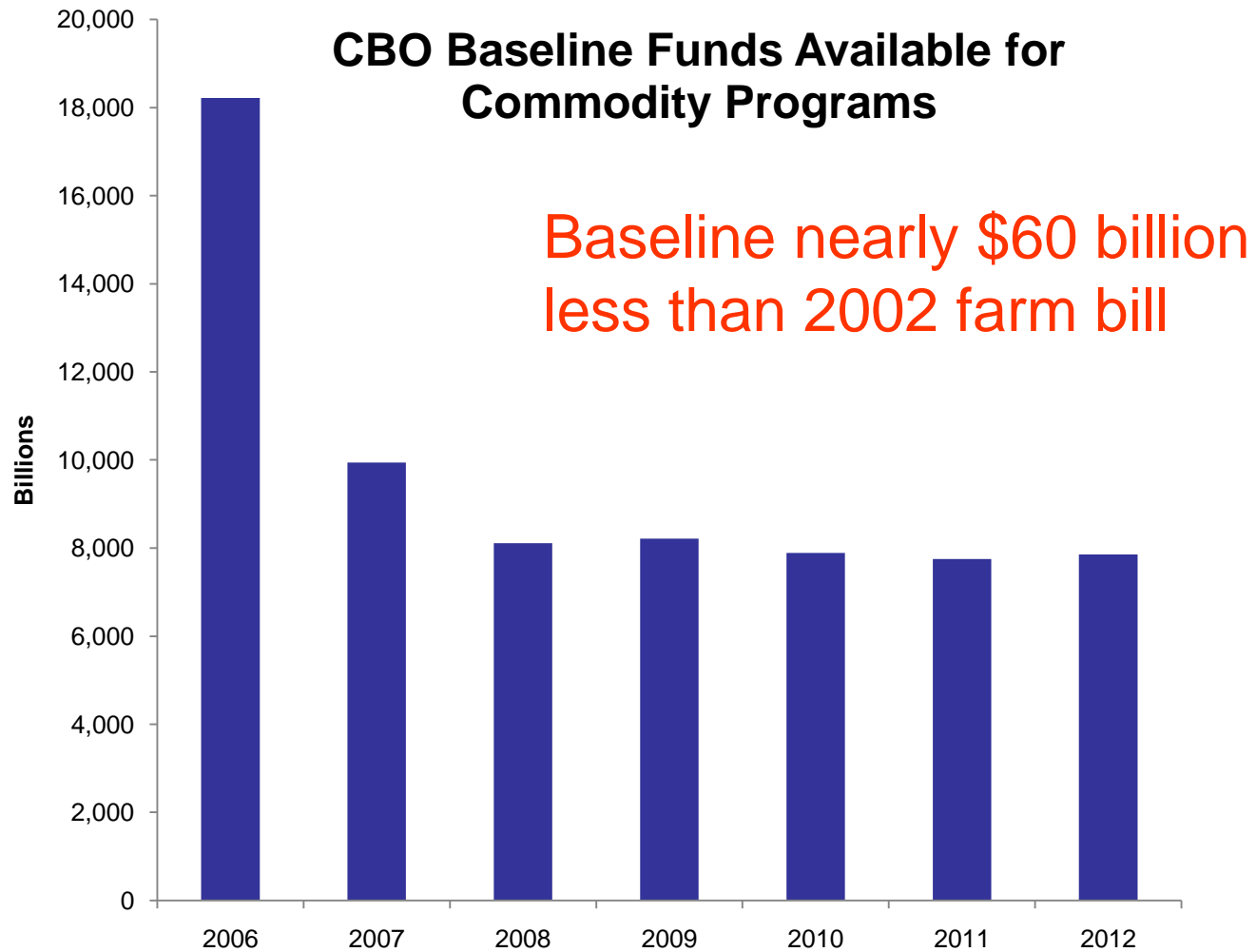
VI. Rural Development

V. Credit

FCE Projected Spending 2008-2012 (\$307 Billion)

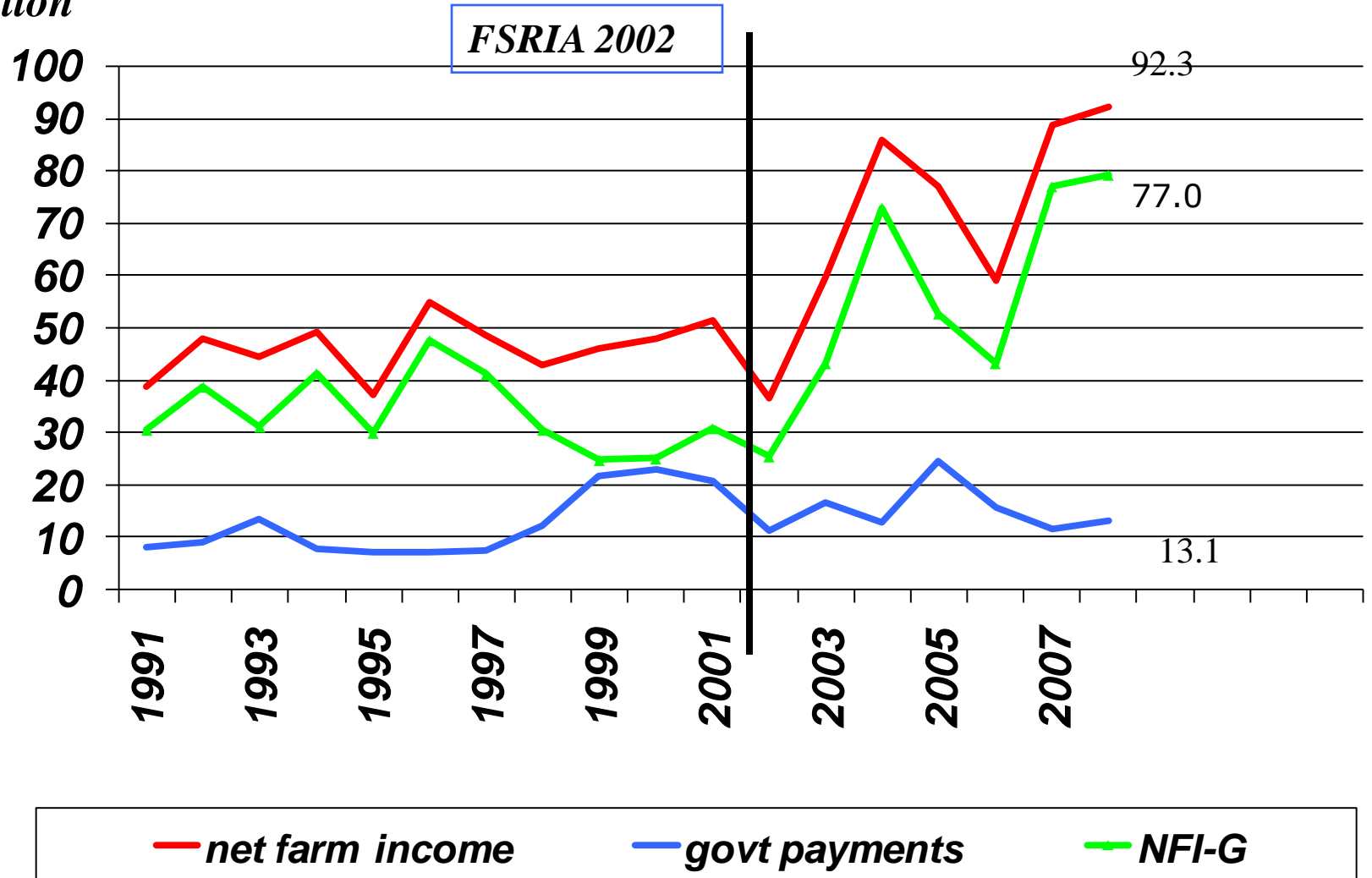


How Budget Baseline Affects Commodity Programs

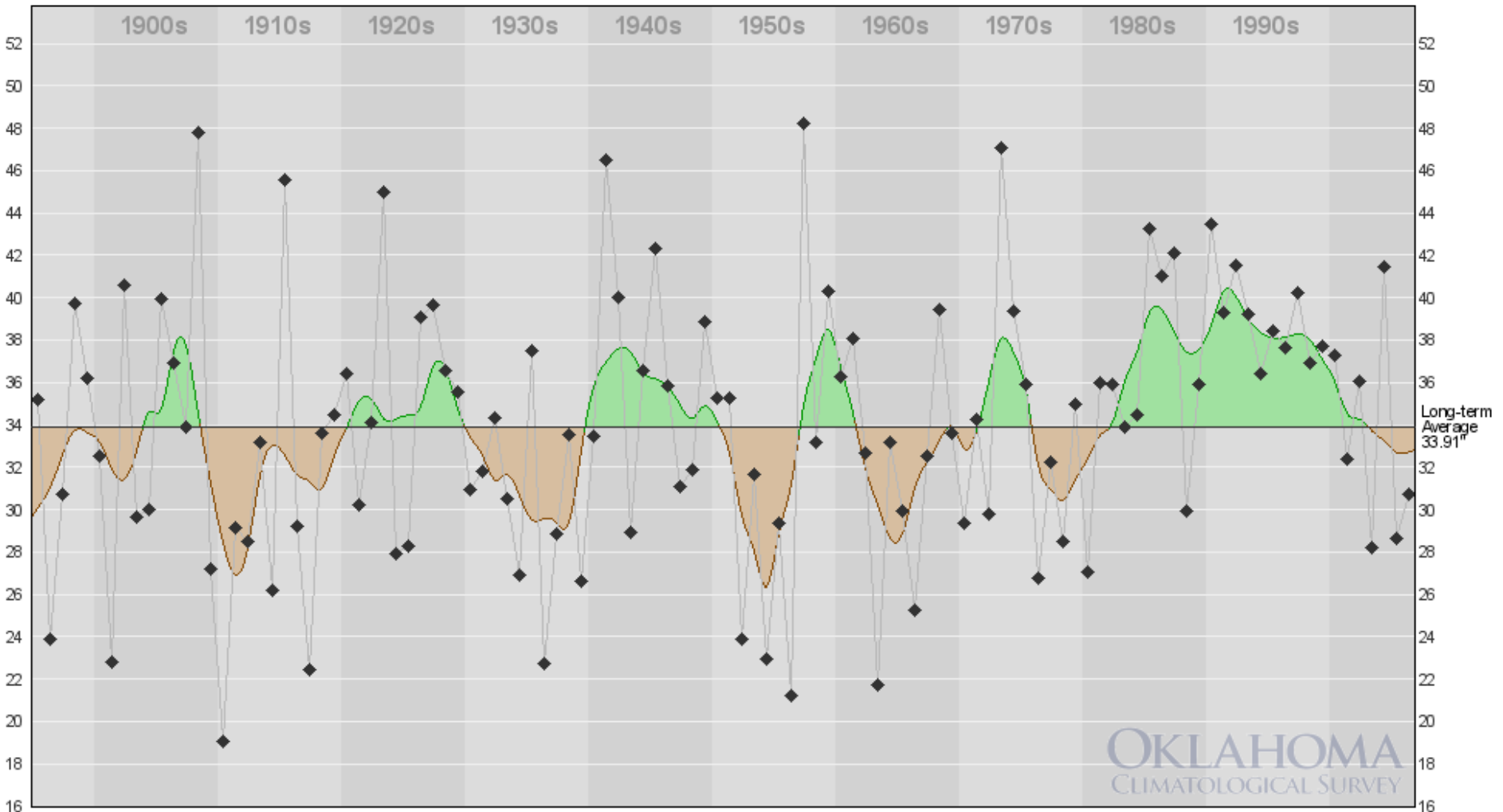


Net Farm Income & Direct Government Payments (1991-2008f)




\$ Billion



Oklahoma Precipitation: 1885-2006



USDA    Annual Precipitation History with 5-year Tendencies
Oklahoma Statewide: 1895-2006

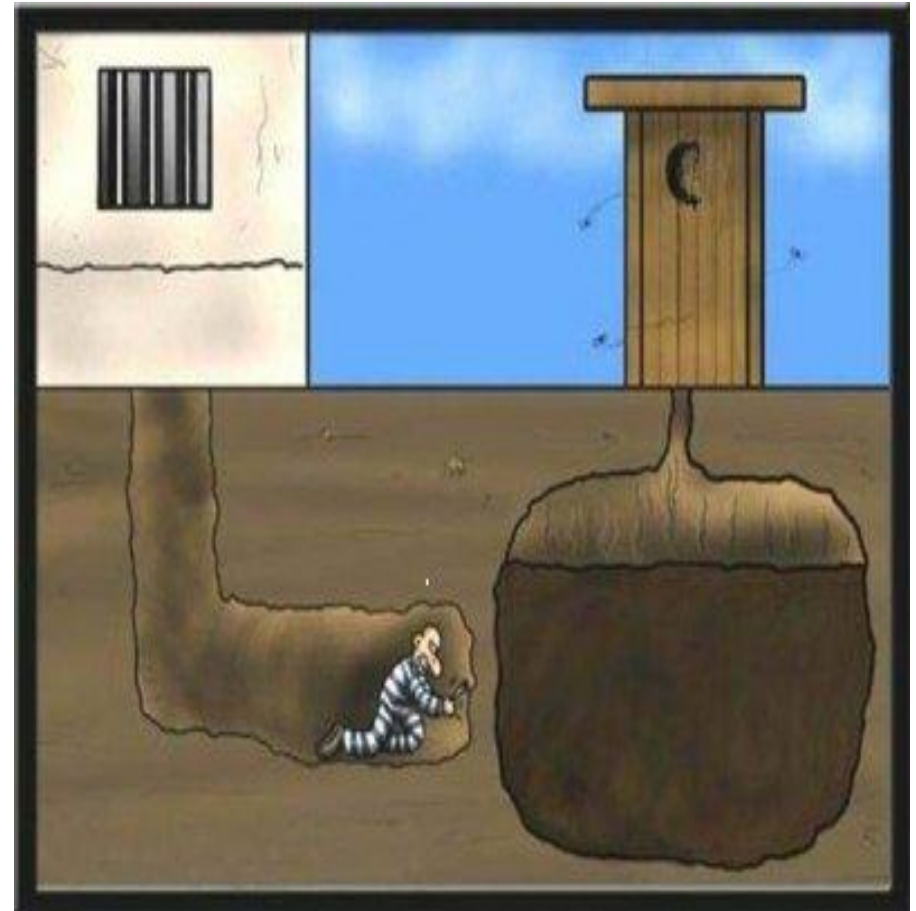
-  Wetter historical periods
-  Drier historical periods
-  Individual Annual precipitation value

FCE-O8: Likely Consequences/Issues

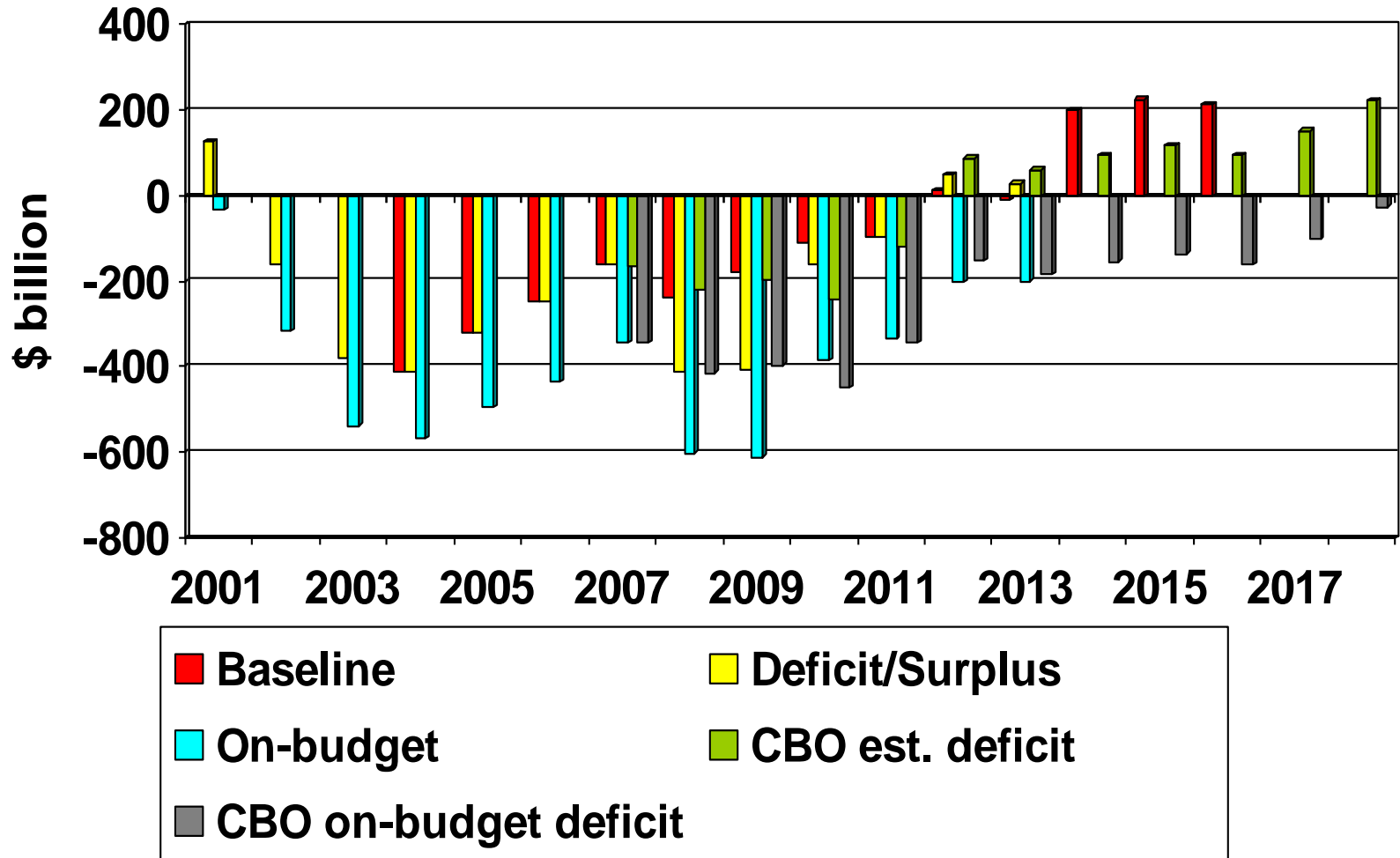
- Commodity Programs:
 - No rules of thumb on participation—VERY COMPLEX & INDIVIDUAL
 - continued low spending while high commodity prices
- Conservation:
 - Working lands better off
 - Nothing to prevent reduction in protected lands w/hi commodity prices
- Crop Insurance/Disaster Assistance:
 - Insurance premiums will rise
 - SURE may eventually replace ad hoc disaster assistance
- Energy:
 - Clear shift to non-corn grain ethanol industry
- Livestock:
 - Paperwork may increase w/COOL, but few teeth in law
- Horticulture/Organic Agriculture:
 - Receives new money for research and promotion, sure to grow in future
- Major issue:
 - Did little to respond to volatility in agriculture, food & input markets
 - Distributional equity remains an issue

If you're digging for Policy Information

- Larry Sanders
 - 405.744.9834
 - larry.sanders@okstate.edu
- Mike Dicks
 - 405-744-6163
 - michael.dicks@okstate.edu

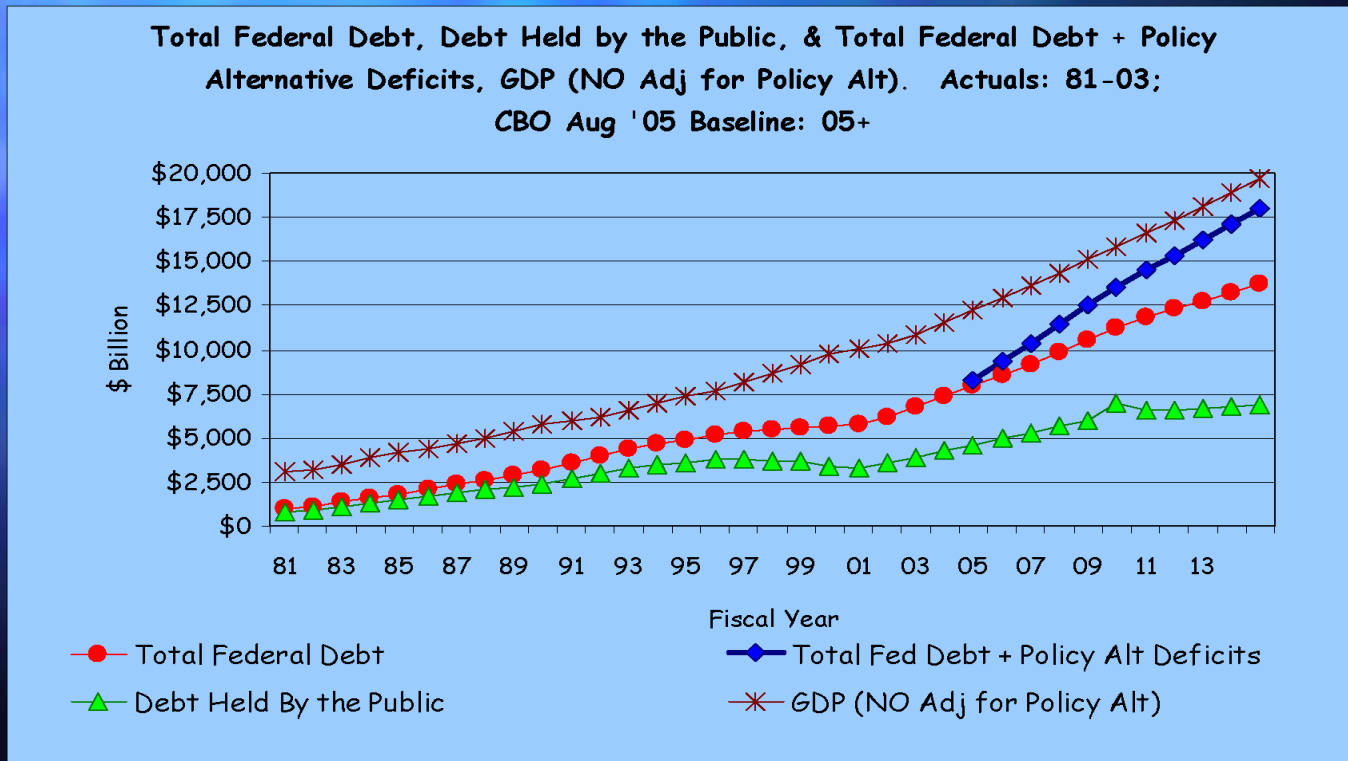


Projected US Surplus/Deficit(-) (2001-2018)



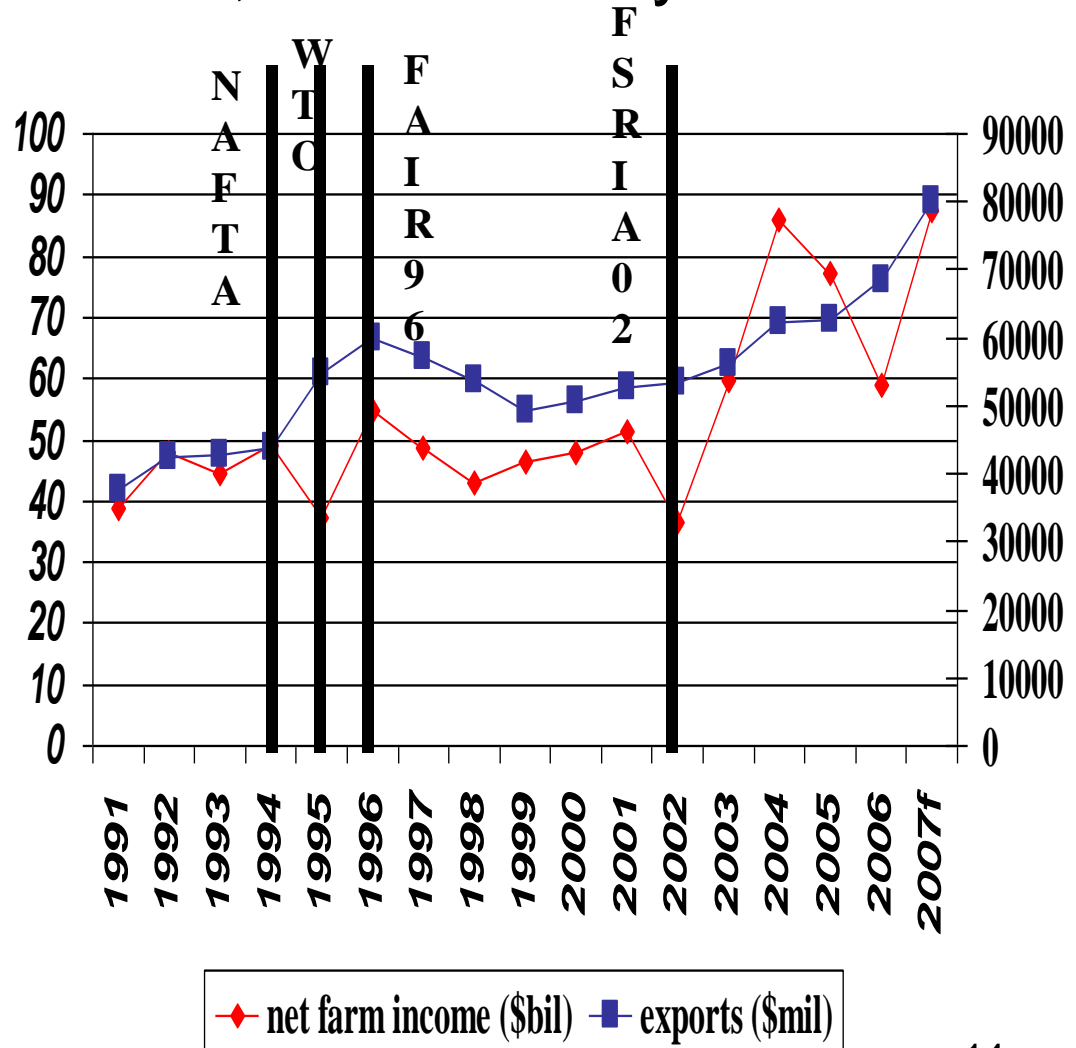
Notes: CBO & President's FY09 Budget; adjusted by Sanders Feb 2008;
 Deficit/Surplus = On-budget less Off-budget

Federal Debt Is the Sum of Annual Deficits and Surpluses: As a % of GDP, the CBO Baseline Debt is Declining



Trade Talks Remain an Unresolved Issue: US Agricultural Exports & Net Farm Income, 1991-2007f

- Trade & trade agreements are an integral part of the farm profit picture.
- However, farm bill subsidies are too.
- WTO remains stalled, for better or worse.
- **US may have lost last best hope for reform and movement.**



Commodity Programs

Note: Most of the remaining slides come from Jim Pease, Virginia Tech

Direct Payments

<u>Commodity</u>	<u>2007</u>	<u>2008-2012</u>
Corn (bu)	\$0.28	\$0.28
Soybeans (bu)	\$0.44	\$0.44
Wheat (bu)	\$0.52	\$0.52
Barley (bu)	\$0.24	\$0.24
Cotton (lb)	\$0.0667	\$0.0667
Peanuts (ton)	\$36	\$36

Target Prices

<u>Commodity</u>	<u>2007</u>	<u>2008-2009</u>	<u>2010-2012</u>
Corn (bu)	\$2.63	\$2.63	\$2.63
Soybeans (bu)	\$5.80	\$5.80	\$6.00
Wheat (bu)	\$3.92	\$3.92	\$4.17
Barley (bu)	\$2.24	\$2.24	\$2.63
Cotton (lb)	\$0.724	\$0.7125	\$0.7125
Peanuts (ton)	\$495	\$495	\$495

Loan Rates

<u>Commodity</u>	<u>2007</u>	<u>2008-2009</u>	<u>2010-2012</u>
Corn (bu)	\$1.95	\$1.95	\$1.95
Soybeans (bu)	\$5.00	\$5.00	\$5.00
Wheat (bu)	\$2.75	\$2.75	\$2.94
Barley (bu)	\$1.85	\$1.85	\$1.95
Cotton (lb)	\$0.52	\$0.52	\$0.52
Peanuts (ton)	\$355	\$355	\$355

Average Crop Revenue Election (ACRE)

TWO TRIGGERS MUST BE MET BEFORE PAYMENTS CAN BE ISSUED

1. STATE TRIGGER

State ACRE Guarantee

90%
times
Benchmark State Yield
(5-year Olympic average planted yield)
times
ACRE Program Guarantee Price
(2-year national average price)

MUST
EXCEED

Actual State Revenue

100%
times
Actual State Planted Yield
times higher of:
National Average Market Price or
70% of National Loan Rate

2. FARM TRIGGER

State ACRE Guarantee

100%
times
Farm Average Yield
(5-year Olympic average planted yield)
times
ACRE Program Guarantee Price
(2-year national average price)
plus
Producer-paid Crop Insurance Premium

AND

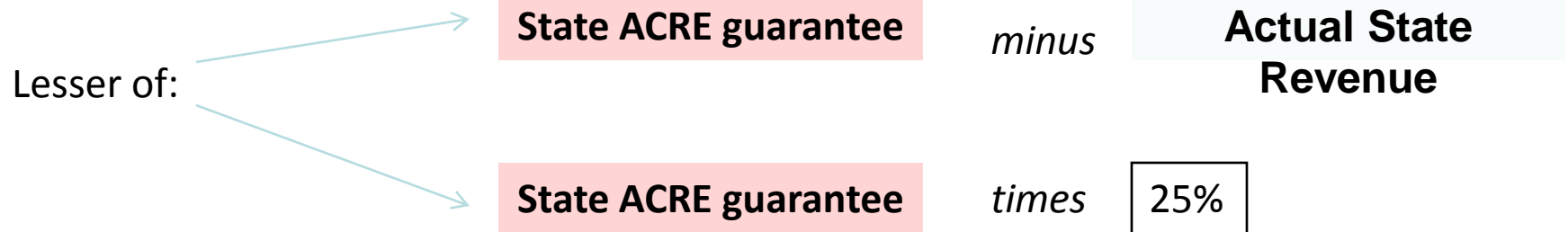
Actual Farm Revenue

100%
times
Actual Farm Yield
times higher of:
National Average Market Price or
70% of National Loan Rate

Average Crop Revenue Election (ACRE)

Calculation of a Farm's Payment

FARM PAYMENT = 85% (83.3% for 2009, 2010, 2011) of farm's planted acres^a
times
 (farm's average yield divided by State benchmark yield)
times



ACRE Payments are issued after October 1 of the year following harvest

For ACRE participants the \$40,000 limitation on direct payments is reduced by the amount of the direct payment reduction. The combined limitation for ACRE and counter-cyclical payments equals \$65,000 plus the amount of the direct payment reduction.

^a The total number of planted acres for which a producer may receive ACRE payments may not exceed the total base acres for the farm. If the total number of planted acres exceeds the total base on the farm the producers may elect which planted acres to enroll in ACRE.

Average Crop Revenue Election (ACRE)

- Replaces price-based CCP with revenue-based ACRE
- ACRE is commodity program option for all 2009-2012 covered commodities and peanuts
- Default is Counter-cyclical Program (no action required), ACRE must be selected
- Once chosen, ACRE applies through 2012

Average Crop Revenue Election (ACRE)

- Payments for a commodity if:
 - State revenue less than state ACRE guarantee, AND
 - Individual farm revenue less than farm benchmark revenue

Average Crop Revenue Election (ACRE)

- ACRE state revenue guarantee =
 - Benchmark yield (Olympic average yield over past 5 years) times
 - Higher of (2-year average national price or loan rate) times 90%
- Actual state revenue =
 - State yield times
 - National average market price for current year

Average Crop Revenue Election (ACRE)

- ACRE farm revenue guarantee =
 - Farm Olympic average yield over past 5 years) times
 - 2-year average national price plus
 - Crop insurance premium
- Actual farm revenue =
 - Farm yield times
 - National average market price for current year

Average Crop Revenue Election (ACRE)

- Payment for a commodity equals lower of:
 - Difference between state ACRE guarantee revenue and actual state revenue
 - 25% of ACRE revenue guarantee
- Times 83.3% of program guarantee times
- Ratio of farm Olympic average yield over past 5 years to state benchmark yield

Average Crop Revenue Election (ACRE)

- Cost of ACRE is:
 - 20% reduction in Direct Payments plus
 - 30% reduction in marketing loan rates
- Other
 - If farm total planted acres exceeds farm total program acres, producer chooses which planted acres are covered
 - Limit of (\$65,000 ACRE revenue payments plus 20% reduction direct payments)

Other Commodity Crop Program Provisions

- Reduction payment acres in 2009-2011
- Planting flexibility restrictions with pilot/double-cropping
- Payments eliminated for farms less than 10 base acres except LR/SD
- Direct attribution to individuals, eliminates 3-entity rule, spouse is “actively engaged”
- Retains \$40K limit on DP, \$65K on CCP, removes \$75K limit on LDP
- No payments if nonfarm AGI > \$500K
No payments if farm AGI > \$750K

Dairy

- Direct purchases not tied to milk price for:
Cheddar cheese (\$1.13 or \$1.10/lb)
Butter (\$1.05/lb)
Nonfat dry milk (\$0.80/lb)
(Prices reduced if excess purchases)
- Extends MILC program through 2012
Class I target price varies with feed costs
Payment percent raised to 45%
Production cap raised to 2.985m lbs.
- Dairy Forward Pricing Program restored
- Extends dairy trade provisions
- Federal Milk Marketing Order review established to evaluate milk pricing regulations

Conservation

Conservation

- Conservation Reserve Program (CRP):
 - Max reduced from 39.2 to 32m. acres beginning 2010
 - Allows up to 1m. acres of wetlands in CRP
 - Allows grazing/harvesting after nesting season prior to Nov 10, 2008. More than 24m. acres eligible. Must have conservation plan, and some acres/yield must be reserved for wildlife, \$75 for contract modification
- Wetlands Reserve Program (WRP)
 - Increases max from 2.3 to 3.0m. acres

Conservation

- Conservation Stewardship Program (CSP)
 - No new Conservation Security Program contracts after 9/30/08, tiered incentive system abolished
 - Max funding 2005-2014 \$6.037 billion, target is 12.8 million acres per year over 2008-2017 @ average \$18/acre or \$230 million/year
 - Farmland plus non-industrial private forest land eligible
 - Producer must already have achieved threshold on State-identified “resource concern”
 - Payments to producers who sign a 5-year contract to implement a conservation stewardship plan
 - Plans can include existing or additional conservation activities, organic certification, on-farm research/demonstration, plus supplement for “resource-conserving crop rotations”
 - Payments include consideration of costs of conservation activities, income forgone, and environmental benefits
 - Payment limit of \$200,000 total for five years

Conservation

- Farmland Protection Program
 - Limits nonagricultural use of farmland through conservation easements
 - Provides cost-share of up to 50% of appraised market value of easement
 - Funding increased in FY2008-2012 to \$773 million

Conservation

- Grassland Reserve Program
 - Provides technical assistance & payments for 10, 15, or 20-year rental contracts, or permanent easements to restore/conservate grasslands
 - Eligible land is grassland for grazing or is located in an area of “historically dominated” land that could provide critical animal/plant habitat, historical resources, or would address conservation priorities
 - Participant must implement a grazing management plan (haying/mowing allowed, no crops grown) and forfeit any commodity program base acres for the land
 - Payments
 - Contracts: Annual payments no more than 75% of the grazing value of land; payments limited to \$50,000/year
 - Easements: Lowest of fair market value, a USDA-determined geographical cap, or landowner offer
 - Max enrollment of 1.22m acres during FY2009-2012

Conservation

- Environmental Quality Incentives Program
 - Contracts of 1-10 years to implement structural, land management, vegetative, or forest management practices on eligible land, including cropland, pasture, and nonindustrial private forest land
 - Conservation activities include water conservation, organic production or transition
 - Payments include costs of structures/practices (75%) and income forgone (100%)
 - Payments limited to \$300,000; incentive payments abolished
 - Funding is 60% for livestock; total \$7.3billion over 2008-2012, up 37%

Conservation

- Wildlife Habitat Incentive Program (WHIP)
 - Technical assistance and up to 75% cost-share to develop and improve wildlife habitat
 - 5-10 year agreements
 - Funding \$85m/year

Conservation

- Chesapeake Bay Watershed Program
 - Assist producers in implementing conservation activities on agricultural land in the Chesapeake Bay drainage
 - Special consideration for Susquehanna, Shenandoah, Potomac, and Patuxent basins
 - Conservation activities (consistent with State strategies) include erosion, sediment, and nutrient loss control, or habitat conservation, restoration or enhancement
 - Funding is \$23m FY2009, \$43m FY2010, \$72m FY2011, and \$50m FY2012 (\$188m over 2009-2012)

Conservation: Additional Farm Bill Funding for Bay States

- \$126m EQIP
- \$44m Conservation Stewardship Program
- \$12m Agricultural Management Assistance
- \$4m Farmland Protection Program
- \$9.2m Wetlands Reserve Program
- \$18.5m Grasslands Reserve Program
- \$1m Healthy Forests Reserve Program
- \$12.5m reduced from Conservation Reserve Program

Source: Chesapeake Bay Foundation, reported in Chesapeake Bay Journal, June 2008, Vol.18(4)

Conservation

- No payments if nonfarm AGI > \$1m, unless 2/3 of AGI is farm income
- For EQIP and CSP, 5% of funds used for beginning farmers; 5% to socially disadvantaged farmers
- USDA will establish technical guidelines for measuring environmental service benefits (carbon markets)

Horticulture and Organic Agriculture

- Increased nutrition assistance at farmers' markets
- Market news activities by USDA
- Increased specialty crop block grants to states. Specialty Crops = Fruits, vegetables, tree nuts, dried fruits, nursery crops, floriculture.

Livestock

- Required livestock reporting (price & volume)
- Retailers of imported beef, lamb, pork, chicken, goat, fish, ginseng, peanuts, pecans, macadamias must designate the country of origin (COOL)
- Increases rights of contract growers
- Approves interstate shipment of state-inspected meat if standards are equal to federal

Crop Insurance and Disaster Assistance

- Attempts to reduce cost of crop insurance to government. Increased premium rates, reduced operating expenses, company reimbursement rates
- Supplemental Agricultural Disaster Assistance Trust Fund established (other available insurance required, \$100,000 limits)
 - Supplemental Revenue Program (SURE)
 - Livestock Forage Disaster Program (LFP)
 - Livestock Indemnity Program (LIP)
 - Tree Assistance Program (TAP)
 - Emergency Assistance Program for livestock, honey bees, and farm-raised fish

SURE

- Crop disaster assistance payments equal to 60% of the difference between program guarantee and actual farm revenue
- Participation requires crop insurance or NAP coverage on all crops (excepting 2008 crops)
- Guarantee not greater than 90% of the summed expected crop revenue
- Insurable crop revenue guarantee: $115\% \times \text{price election} \times \text{payment acres} \times \text{yield election percent} \times \text{higher of (APH yield, CCP yield)}$
- Noninsurable crop revenue guarantee: $120\% \times \text{NAP price} \times \text{payment acres} \times \text{higher of (NAP yield guarantee, CCP yield)}$
- Actual farm revenue: Sum of (crop acres harvested x actual yield x national average market price, 15% DP, CCP, loan program proceeds, crop insurance payments, NAP, any other disaster payments)
- Total disaster payment limit of \$100,000 per individual

Other Disaster Assistance Trust Fund Programs

(similar to current disaster assistance)

- Livestock Forage Disaster Program (LFP). Payments to pasture owners with certified grazing losses from drought or fire for covered livestock. CRP land not eligible. Monthly payments equal to 60% x monthly feed cost as lesser of (feed grain equivalent, pasture normal carrying capacity)
- Livestock Indemnity Program (LIP). Payments to producers with excess livestock death losses due to adverse weather. Payment rate is 75% of market value at death.
- Tree Assistance Program (TAP). Payments to orchardists and nursery tree growers with at least 15% tree losses due to natural disasters. Payments equal to 70% of replanting cost, or supplied new seedlings, or 50% of pruning/removal/land preparation costs

Energy

- NOTE: Key Bio-energy provisions for RFS are found in the Energy Independence and Security Act of 2007, not in Farm Bill
- Note: “advanced biofuel” is fuel derived from renewable biomass other than corn kernel starch (cellulose, sugar, waste, biodiesel, biogas, butanol, etc.)
- Note: “renewable energy” is energy derived from wind, solar, renewable biomass, ocean, geothermal or hydroelectric source, hydrogen from renewable biomass or water

- Key shift in support from grain-based to cellulosic-based biofuels
- \$1 billion in funding for renewable energy
- Biomass R&D continued; \$118 mil. 2009-12
- Collaboration between USDA & DOE
- \$320 mil. Biorefinery aid
- REAP provides \$250 mil.
- \$300 mil. for Bioenergy Program 2009-12
- Sugar program calls for USDA purchase of sugar for ethanol use
- Ethanol blending tax credit reduced by 12%

Rural Development

- Continues support for rural water systems, electricity services, cooperatives with no significant increase in funding
- Rural Microentrepreneur Assistance Program: \$15m total. Loans and grants to rural businesses with less than 10 employees. Only new rural development program.