

Provisions of the Crop Programs of the Farm Security and Rural Investment Act of 2002

Prepared by

Professor Bruce L. Jones

**Center For Dairy Profitability and
Dept. of Ag Econ**

UW-Madison and UWEX

THREE TYPES OF PAYMENTS

Direct payments

Counter cyclical payments

Loan deficiency/market loan payments

DIRECT PAYMENTS

Payment per bushel * Payment yield * (.85 Program acres)

Payment per bushel 2002 - 2007

<u>Crop</u>	<u>Rate (Per Bu.)</u>
Corn	.28
Soybeans	.44
Wheat	.52
Oats	.024

COUNTER CYCLICAL PAYMENTS RATES

CCP Rate

[Target Price - Direct Payment Rate] - [Higher of Loan Rate *or* Market Price]

CCP Payment

CCP rate * Payment Yield * (.85 Program Acres)

Target Prices

<u>Crop</u>	Payment rates (Per Bu.) for the period:	
	<u>2002 - 2003</u>	<u>2004 - 2007</u>
Corn	2.60	2.63
Soybeans	5.80	5.80
Wheat	3.86	3.92
Oats	1.40	1.44

LOAN DEFICIENCY PAYMENTS

County loan rate *less* Posted county price

Paid on all bushels of production

PROGRAM ACRES

- 1) Historic
- 2) Updated

Average actual planted or prevented planted acres
for 1998 - 2001

PROGRAM ACRES cont.

Retaining historic program acres requires use of historic program yields

Updating acres to average actual planted acres allows for use of:

historic program yields or

updated yields based on averages for the 1998 - 2001 period

HISTORIC PROGRAM ACRES

Corn, wheat, and oat base acres established

Soybean base acres set equal to total planted corn and soybean acres (1998 - 2001) less corn base
(Up to total planted acres of soybeans)

May add to soybean base any wheat and oat base acres as long as new soybean base does not exceed total average planted acres of soybeans for the 1998 - 2001 period

UPDATED PROGRAM ACRES

Four year average of actual or prevented planted acres

PROGRAM YIELDS

For Loan Deficiency payments

Actual Crop Yields

For Direct payments

Historic Crop Yields

For Counter cyclical payments:

Using Historic Acres

Historic Program Yields

Using Updated Acres

Historic Program Yields

70% Difference Average and Historic Yields

93.5% Average Yields for 1998 - 2001 period

Update yields

Greater of farmer yields or 75% of county average yield

For soybeans, historic yield is 78.14% of 1998 to 2001 average yield

PAYMENT LIMITATIONS

\$40,000 – Direct payments

\$65,000 – Counter cyclical payments

\$75,000 – Market loan gains and Loan deficiency payments

\$180,000 – Total payments per “person”

Three entity rule

May collect up to 50% of payments made to two additional entities or persons

Can result in person receiving a maximum of an additional \$180,000

Two Benefits From 2002 Farm Bill

Income Support

Price Support

Income Support

Counter cyclical payments – Paid on Base Acres & Historic Yields

Direct payments - Paid on Base Acres & AMTA Yields

Vary dependent on market prices of corn, soybeans, wheat, & oats

Price Support

Loans and Loan Deficiency Payments
Guarantee Minimum Prices for Corn,
Soybeans, Wheat, & Oats Produced Each
Year

Loan rates are:

<u>Crop</u>	<u>Loan Rate (\$/Bu.)</u>
Corn	1.98
Soybeans	5.00
Wheat	2.80
Oats	1.35

Observations About 2002 Farm Bill's Crop Program

Producers desiring price protection should consider shifting acreage into corn, soybeans, or other program crops since these crops have “ price floors “ in the form of loans under the current farm program.

Greater price protection is given to soybeans versus corn in the current crop program

As such soybean acreage may stay constant or rise in the coming years. If this happens soybean prices could remain low while corn prices rise as the result of decreased production. If this happens counter cyclical payments on corn could fall while they remain high on soybeans

Northern Crescent Region

Crop	Yield in Bushels per Acre	Loan Rate	Ave. C.O.P (excl. land)	Net Return per :		Soybean Loan Rate Equivalent to Corn Loan Rate
		Per Bu.	Per Bu.	Bushel	Acre	
Com	123.80	1.98	2.24	-0.26	-32.19	
Soybeans	42.80	5.00	4.39	0.61	26.11	3.64

Total U.S.

Crop	Yield in Bushels per Acre	Loan Rate	Ave. C.O.P (excl. land)	Net Return per :		Soybean Loan Rate Equivalent to Corn Loan Rate
		Per Bu.	Per Bu.	Bushel	Acre	
Com	134.80	1.98	2.06	-0.08	-10.78	
Soybeans	41.80	5.00	4.09	0.91	38.04	3.83

Program rewards producers who raised
“program crops” in favor of non-program
crops such as hay

Recent acreage and yields for corn,
soybeans, etc. are now being used to
determine counter cyclical payments and
direct payments

Suggests that in the near future producers
should be raising corn and soybeans
versus hay in the event that future crop
programs are set-up like the current
program .