

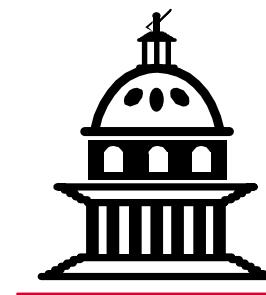
Comparison of Policy Alternatives for Representative Farms/Ranches

Texas Agricultural Forum
Waco, Texas
January 15, 2002

Abner W. Womack, Professor and Director

Joe L. Outlaw, Associate Professor
and Extension Economist

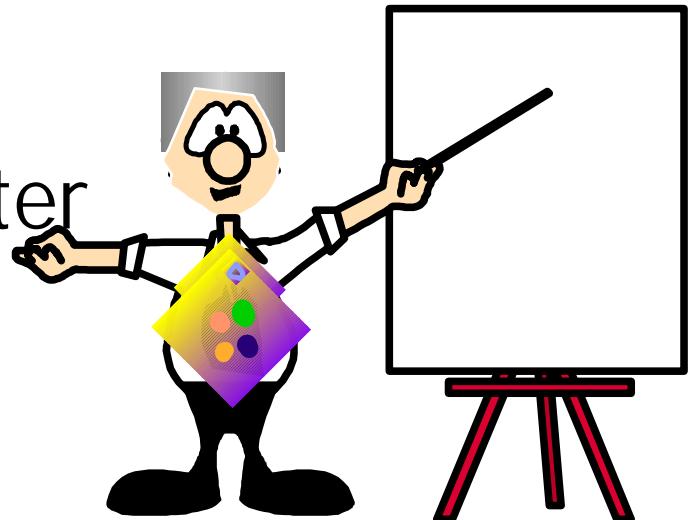
afpc.tamu.edu
Phone: (979) 845-3062
Fax: (979) 458-1810



AFPC
AGRICULTURAL & FOOD POLICY CENTER
TEXAS A&M UNIVERSITY SYSTEM

Presentation Outline

- Where We Have Been
- Farm Bill Proposals
 - House – H.R. 2646
 - Senate – S. 1731
- The Farm Level Barometer
- Timetable



Where We Have Been

- Current farm bill expires next fall
- Push for new farm bill in 2001
 - To fix perceived problems with 1996 bill
 - To secure funding for future years
- Budget resolution set aside additional \$73.5 billion over FY 2002-2011 for agriculture



House Ag. Committee farm bill (H.R. 2646)

- House Agriculture Committee passed its draft of a new farm bill on July 27
- The bill, H.R. 2646
 - Continues fixed payments, includes beans
 - Adjusts loan rates
 - Introduces new counter-cyclical payment program

Fixed payments under H.R. 2646

- Very similar to current AMTA payments
- Biggest differences
 - Farmers may update base acreage, using average of 1998-2001 plantings
 - For farmers who update base acreage, soybeans are eligible for fixed payments
- Program yields can NOT be updated

Counter-cyclical payments (CCPs) under H.R. 2646

- CCPs = Target Price - Fixed Payment
 - (higher of farm price or loan rate)
- CCPs and fixed payments are paid on program yield on 85% of base acres.
- Current flexibility rules apply
 - Farmers can generally plant what they want
 - What they plant doesn't affect how much they get in terms of fixed payments and CCPs

Expected per-unit gross returns for the 2003 crop, H.R. 2646

- Given FAPRI's projected prices, table shows a comparison of expected total revenue from the market and gov't payments per unit of production

	FAIR Act	H.R. 2646	Change	Percent Change
Corn per bu	\$2.41	\$2.64	\$0.24	10%
Beans per bu	\$5.58	\$5.81	\$0.23	4%
Cotton per lb	\$0.628	\$0.719	\$0.091	15%
Rice per cwt	\$10.48	\$11.53	\$1.05	10%
Wheat per bu	\$3.43	\$3.82	\$0.39	11%

Political events: August-October

- Smaller estimate of federal budget surplus raised questions about whether country could afford H.R. 2646
- September 11
 - Temporarily set back plans to consider H.R. 2646
 - But also had effect of weakening concerns about the budget

Administration Views of H.R. 2646

- At beginning of House floor debate, issued “Statement of Admin. Policy”
 - Debate should be delayed
 - Bill gives too much to too few
 - Would hurt us in trade negotiations
 - Overall spending too high in light of current events
- Question: Would President veto?

And then there's the Senate...

- After many twists and turns, Senate Ag. Committee passed its bill Nov. 15
- Similar to House bill in many respects
 - Farmers get benefits from loan rates, fixed payments, and counter-cyclical payments
 - Similar total government spending level

A Few Differences Between H.R. 2646 and S. 1731

H.R. 2646

10-yr. bill

More conservation
spending

Little on dairy
(\$9.90 support)

S. 1731

5-yr. bill

Even more conserv.
spending

Higher fluid milk
prices + payments

Fixed and counter-cyclical payments, Senate Ag. bill

- Fixed payments reduced over time (House held them constant)
- Counter-cyclical payments
 - No CCPs in 2002 or 2003
 - Would make CCPs for 2004-2006 if prices are lower than “income protection price”
- Farmers can update both base area and payment yields

Comparison of Decoupled Payment Rates

	H.R. 2646	S. 1731 02/03	S. 1731 04/05	S. 1731 06	S. 1731 5 yr avg	S. 1731 10 yr avg
Wheat (\$/bu)	.53 (.451)	.45	.225	.113	.293	.203
Corn (\$/bu)	.30 (.255)	.27	.135	.068	.176	.122
Sorghum (\$/bu)	.36 (.306)	.31/.27	.135	.068	.184	.126
Cotton (\$/lb)	.0667 (.057)	.13	.065	.0325	.085	.059
Rice (\$/cwt)	2.35 (1.998)	2.45	1.225	.6125	1.593	1.103
Soybeans (\$/bu)	.42 (.357)	.55	.275	.138	.358	.248

Comparison of Loan Rates

	Baseline	H.R. 2646	S. 1731	S. 1731
	Maximum	Maximum	Fixed Levels	% Increase Over 2646
Wheat (\$/bu)	2.58	2.58	3.00	16.3
Corn (\$/bu)	1.89	1.89	2.08	10.1
Sorghum (\$/bu)	Relative market prices with corn	1.89	2.08	10.1
Cotton (\$/lb)	.5192	.5192	.55	5.9
Rice (\$/cwt)	6.50	6.50	6.85	5.4
Soybeans (\$/bu)	5.26	4.92	5.20	5.7

Comparison of Target/Income Protection Prices for Counter-cyclical Payments

	H.R. 2646	S. 1731	Effective 2646 over 10 yrs
Wheat	4.04/bu	3.45/bu	3.82/bu
Corn	2.78/bu	2.35/bu	2.65/bu
Sorghum	2.64/bu	2.35/bu	2.53/bu
Cotton	.736/lb	0.68/lb	.70/lb
Rice	10.82/cwt	9.30/cwt	10.17/cwt
Soybeans	5.86/bu	5.75/bu	5.72/bu

Base updating in the Senate Ag. Committee bill

- Farmers have option of updating payment base to
 - 1998-2001 average planted area
 - 1998-2001 average yield, dropping low
- Good news: for most producers, more bushels eligible for payments
- Bad news: Lower payment rates per bushel

Updating Program Yields

- Estimates are based on county data.
- Decision to update based on expected program benefits where each county is treated as a farm.

	2002 AMTA	S. 1731
Wheat	34.5	43.0
Corn	102.6	140.2
Sorghum	56.9	67.8
Barley	46.7	54.7
Oats	50.7	62.5
Cotton	600.0	654.7
Rice	48.2	55.0
Soybeans	NA	40.3
Sunflowers	NA	15.0

Expected gross returns for the 2003 crop, H.R. 2646 vs S. 1731

- Given FAPRI's projected prices, table shows a comparison of expected total revenue from the market and gov't payments per unit of production

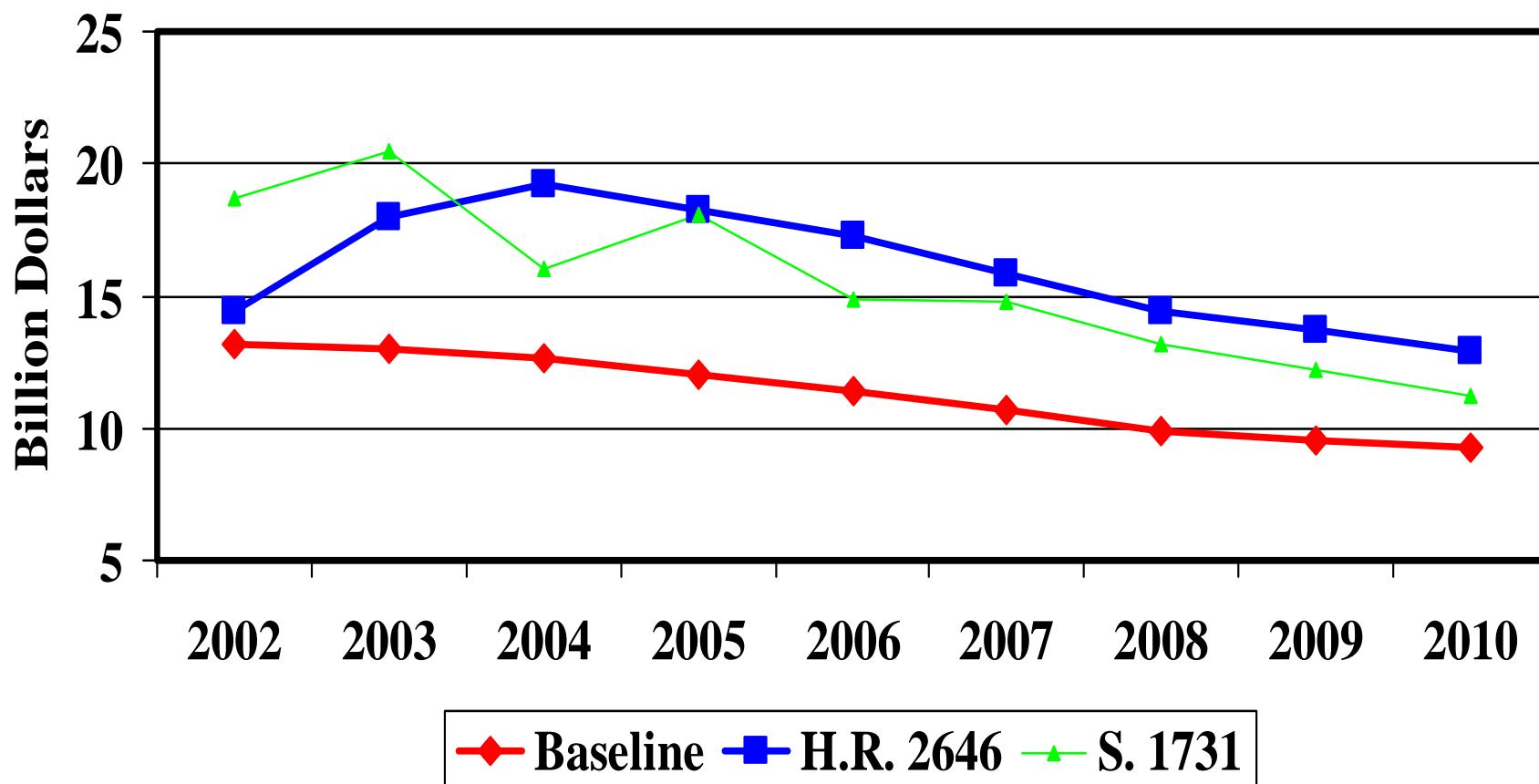
	H.R. 2646	S. 1731	Change S-HR	Percent Change
Corn per bu	\$2.64	\$2.62	-\$0.02	-1%
Beans per bu	\$5.81	\$6.09	\$0.28	5%
Cotton per lb	\$0.719	\$0.733	\$0.014	1%
Rice per cwt	\$11.53	\$11.57	\$0.04	0.3%
Wheat per bu	\$3.82	\$3.83	\$0.01	0.3%

Expected gross returns for the 2008 crop, H.R. 2646 vs S. 1731

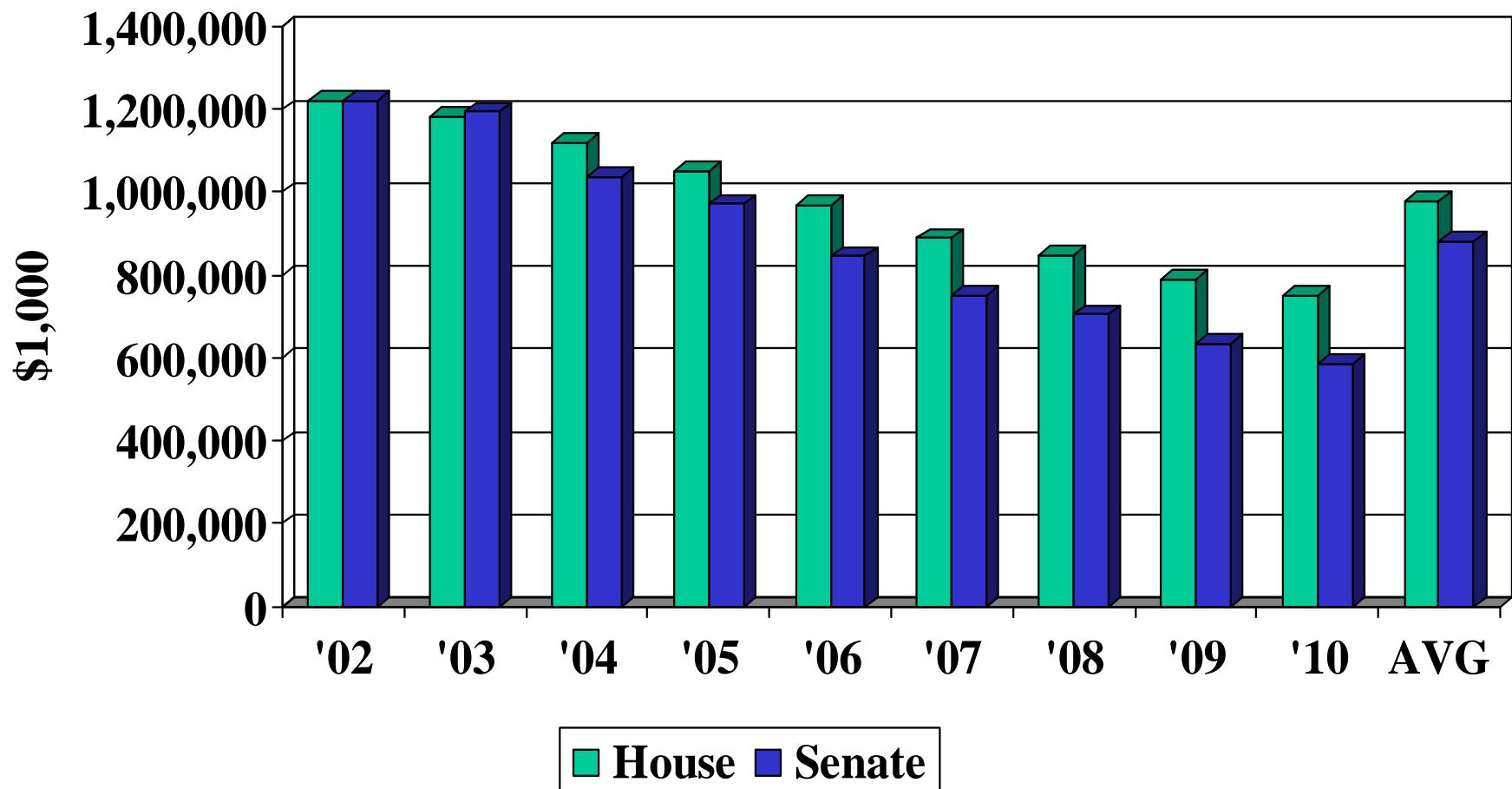
- Given FAPRI's projected prices, table shows a comparison of expected total revenue from the market and gov't payments per unit of production

	H.R. 2646	S. 1731	Change S-HR	Percent Change
Corn per bu	\$2.72	\$2.64	-\$0.08	-3%
Beans per bu	\$6.01	\$6.10	\$0.09	1.5%
Cotton per lb	\$0.713	\$0.701	-\$0.014	-1.7%
Rice per cwt	\$11.33	\$10.95	-\$0.38	-3.3%
Wheat per bu	\$3.89	\$3.73	-\$0.16	-4%

FAPRI's Projected Net CCC Outlays



Projected Direct Payments and Loan Gains to Texas Producers Under the House and Senate Plans, 2002-2010.



Possible WTO Implications of H.R. 2646 and S. 1731?

- If the CCP is classified as “non-product-specific Amber box,” then FAPRI analyses suggest spending under H.R. 2646 and S. 1731 have a 36.5% and 30% chance of exceeding the AMS cap of \$19.1 billion for the 2002 crop.
- As prices increase over the projection period, probability of exceeding AMS cap declines.

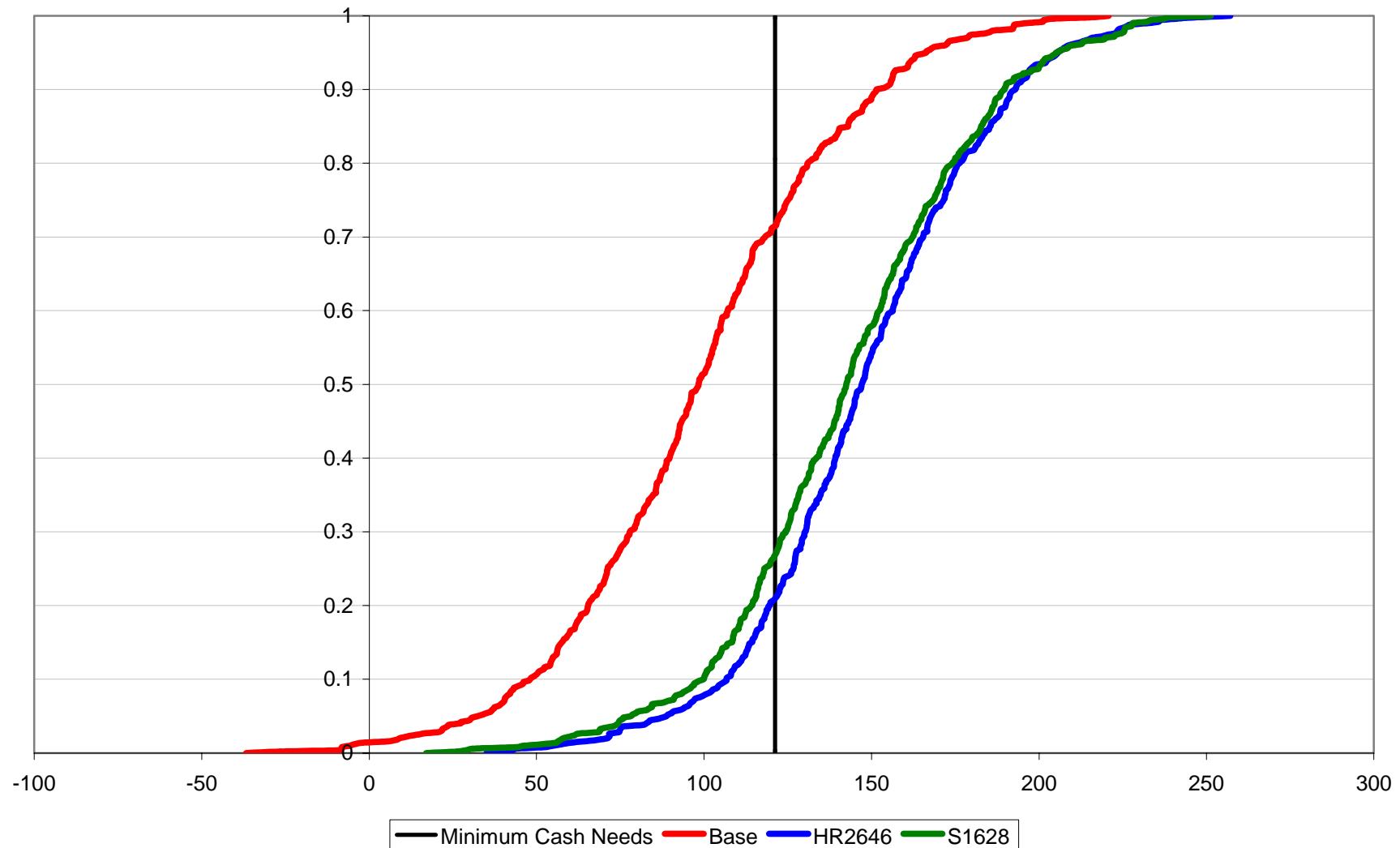
Administration Views of H.R. 2646 vs S. 1731

- Administration opposes both H.R. 2646 and S. 1731
 - Probably stronger opposition to S. 1731 because of higher loan rates
 - Supports Cochran/Roberts alternative
- There is support for additional spending if the policy is “right”
- Question: Would he veto either???

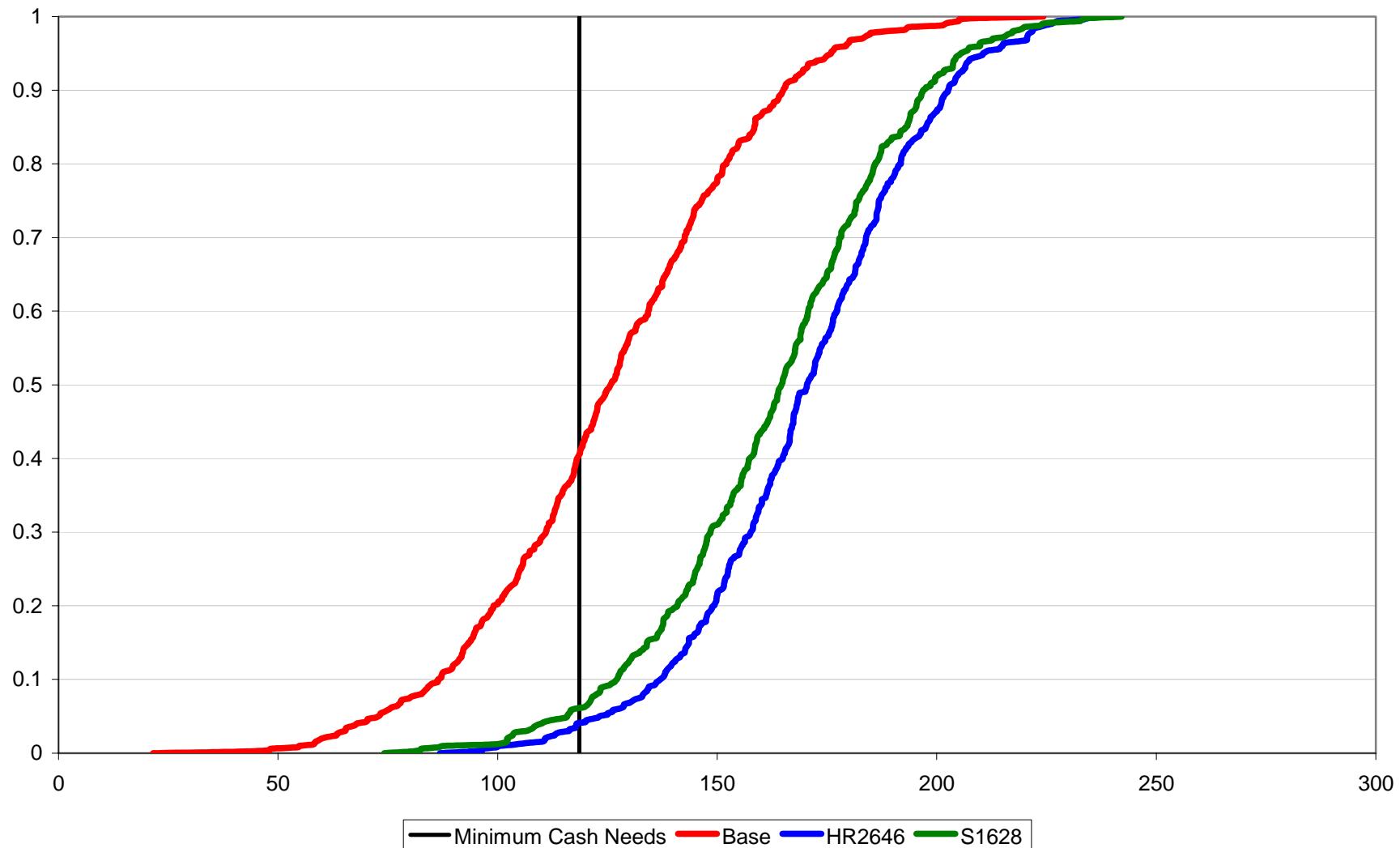
The Farm Level Barometer

- AFPC Representative Farms
- FAPRI Macro Policy Projections
- “Barometer” regarding future financial health for the agricultural sector

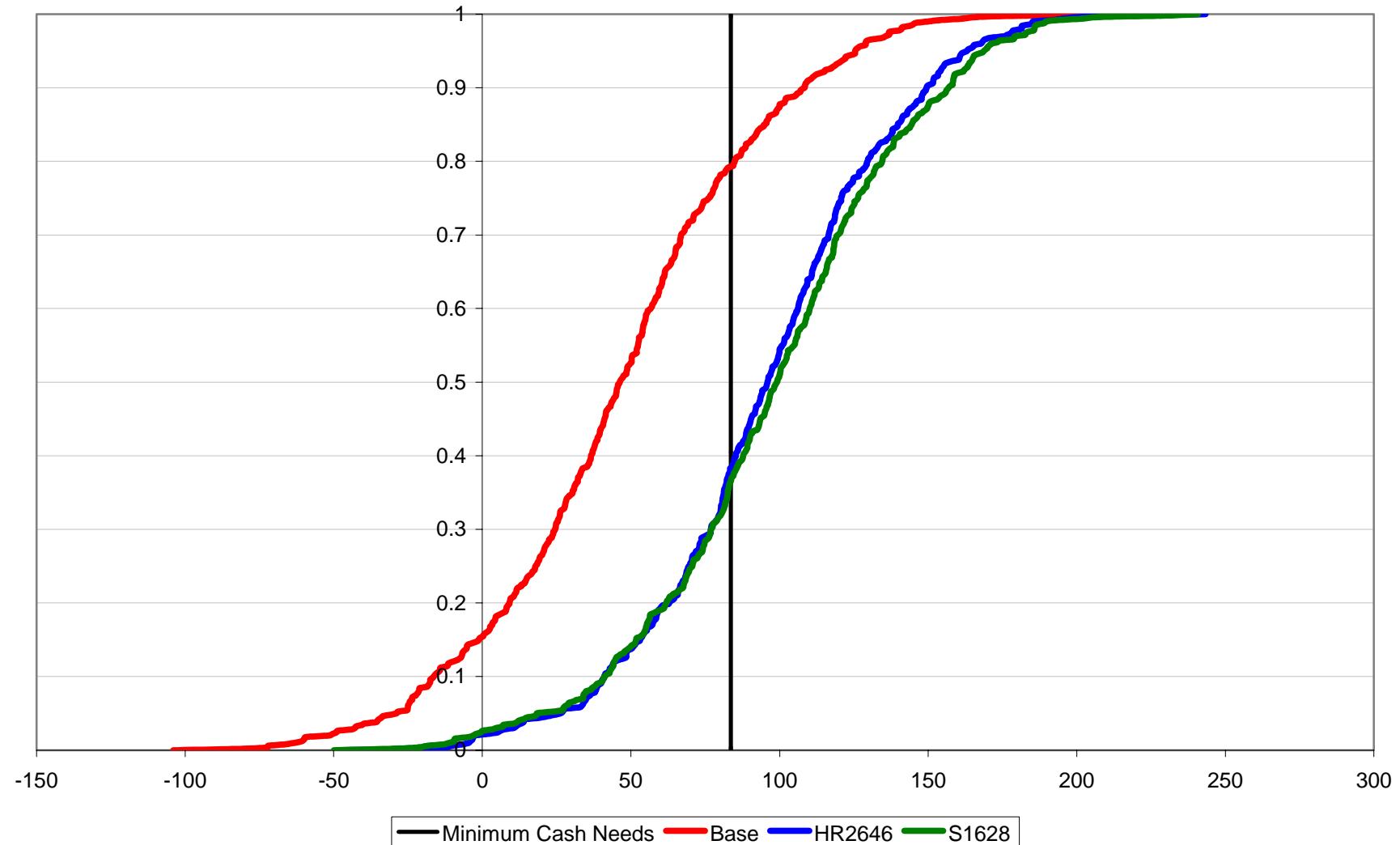
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the IAG 2400 Representative Grain Farm



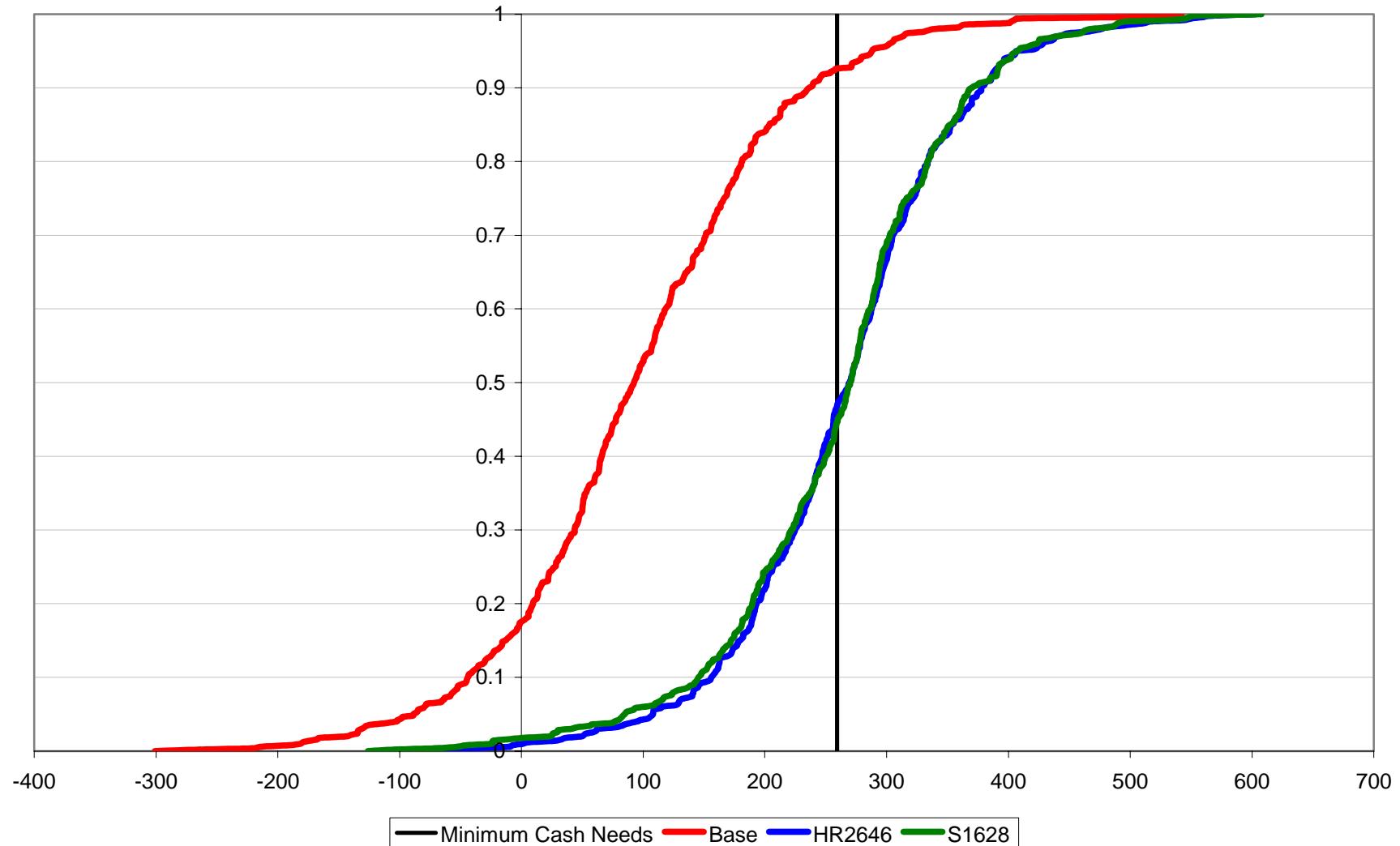
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the NEG1300 Representative Grain Farm



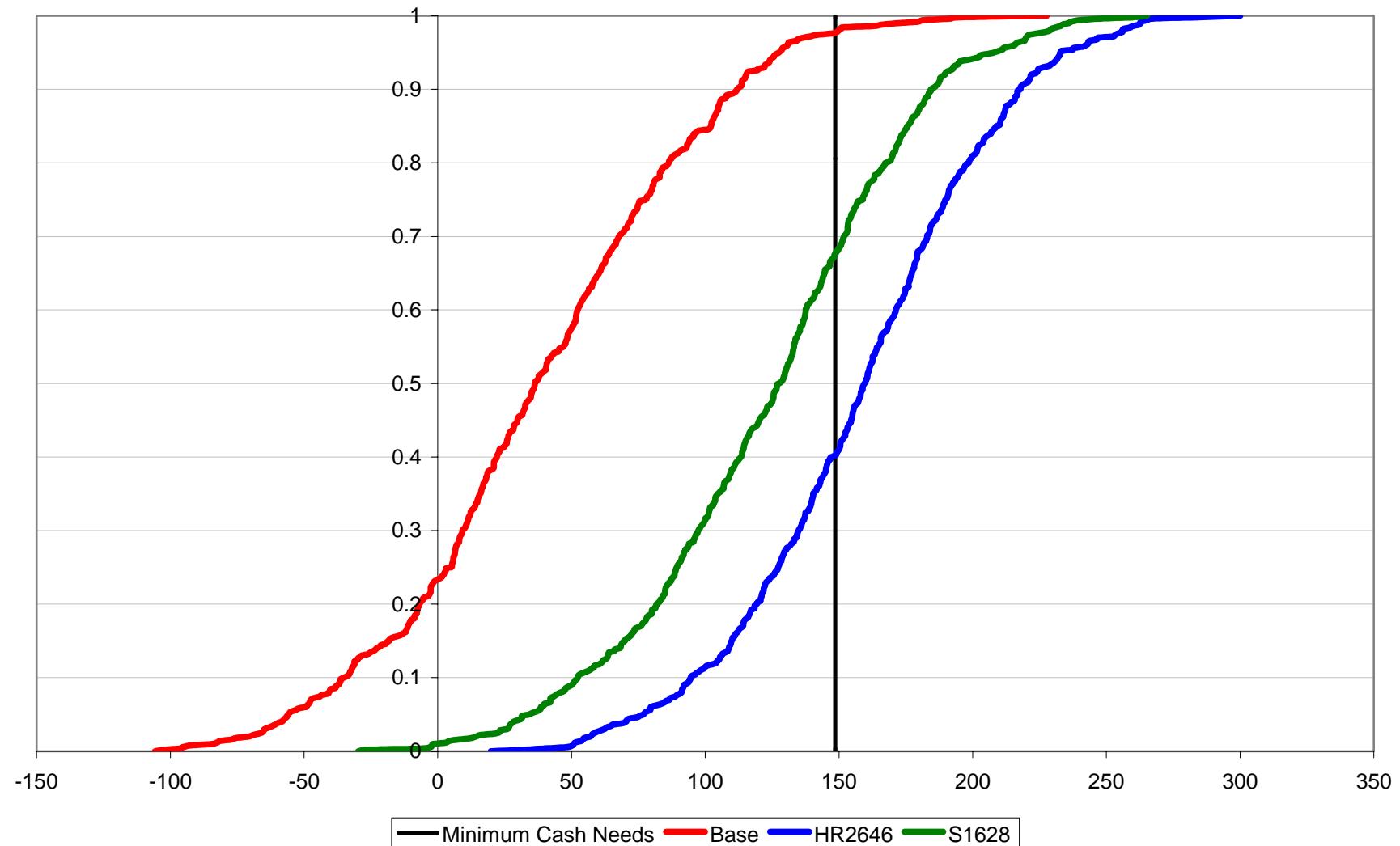
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXNP1600 Representative Grain Farm



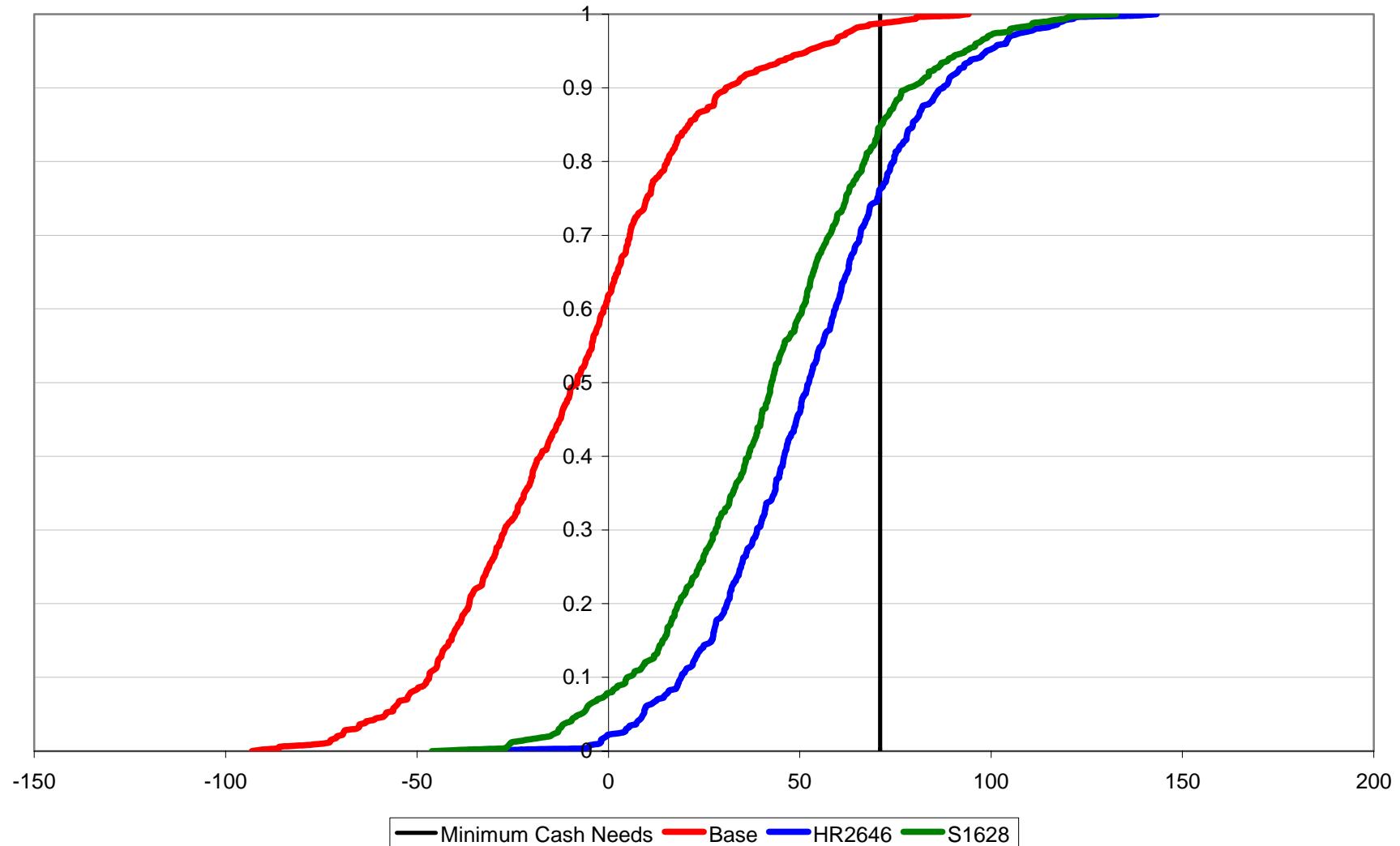
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXNP6700 Representative Grain Farm



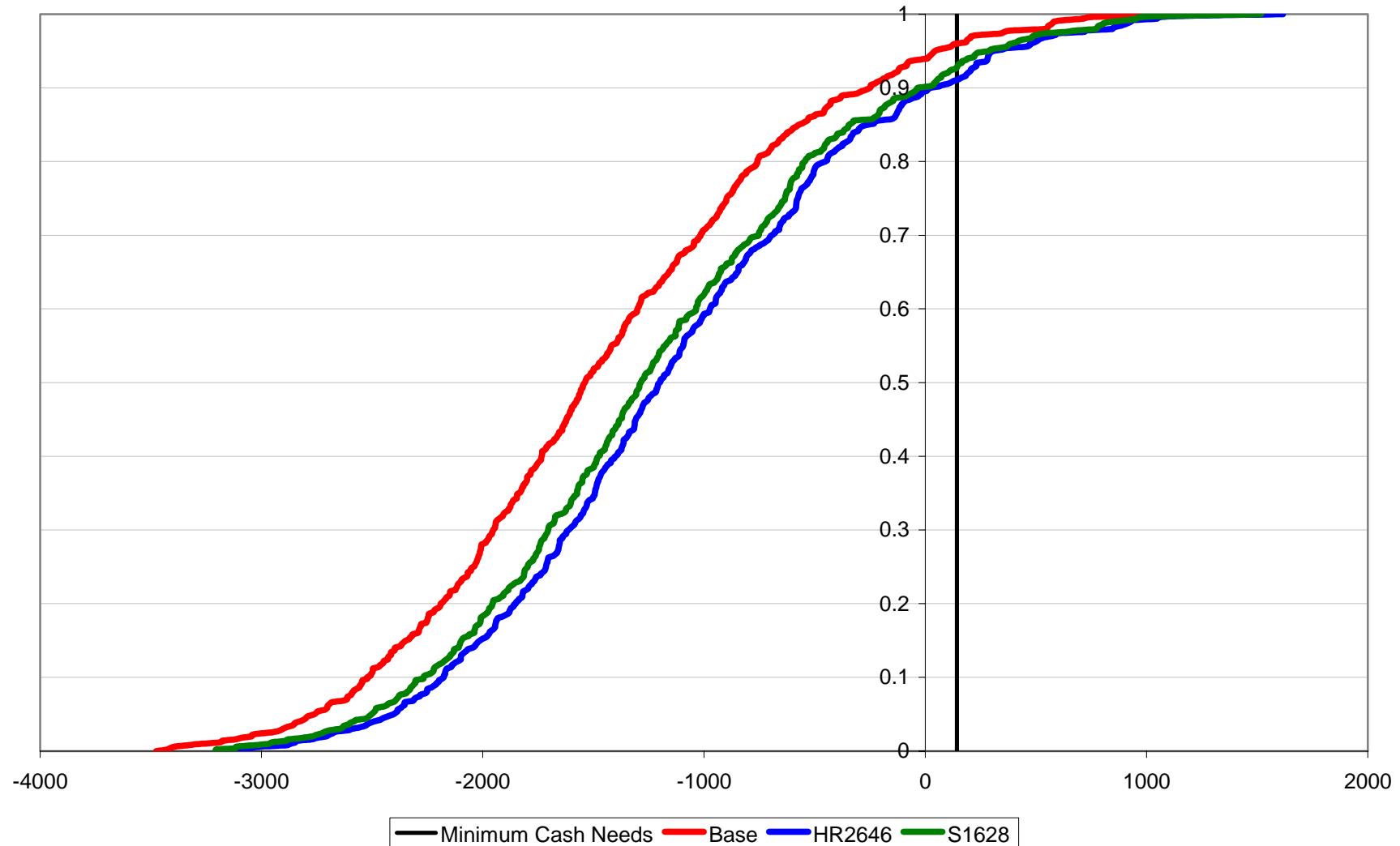
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the WAW4675 Representative Wheat Farm



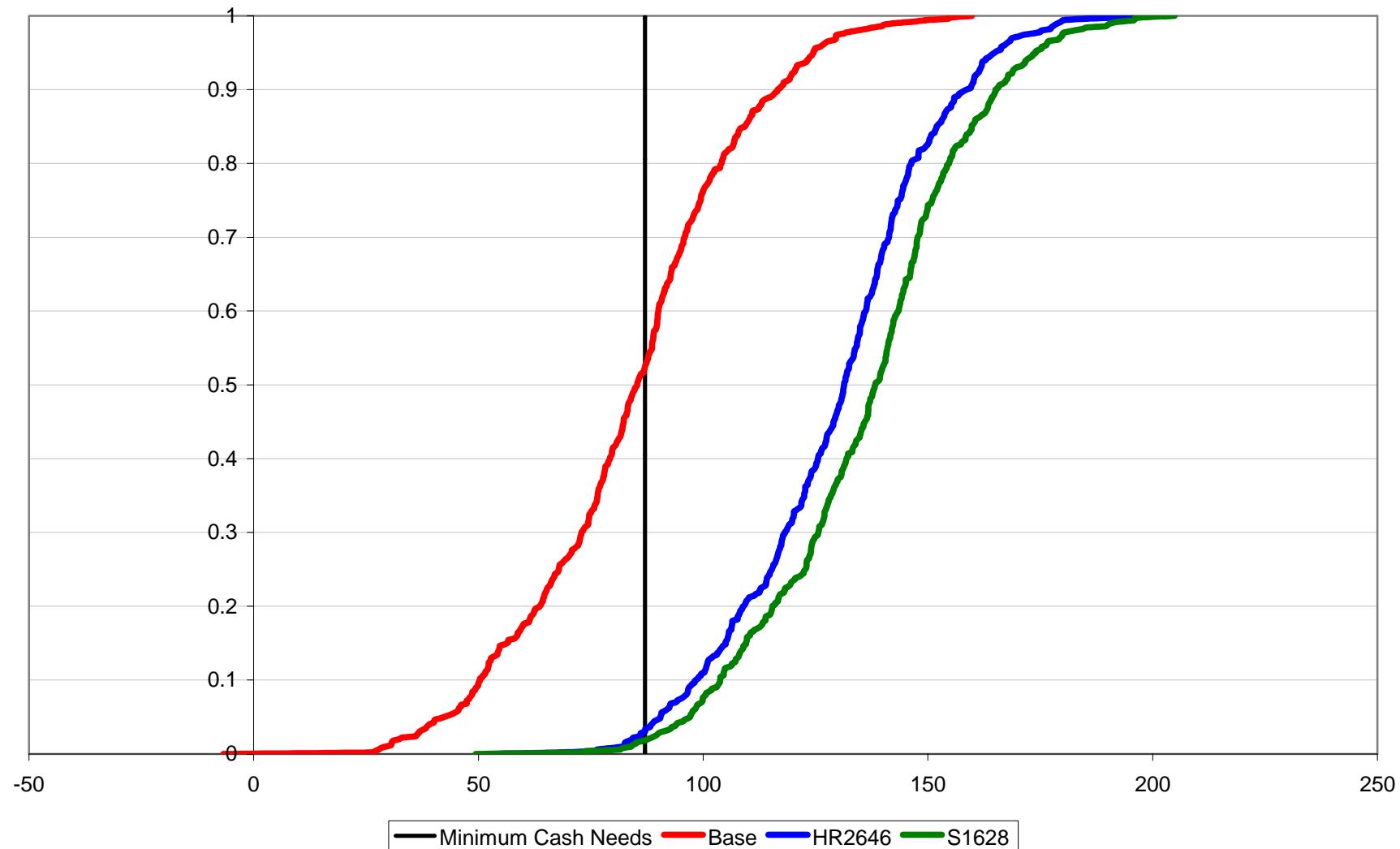
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the KSNW4300 Representative Wheat Farm



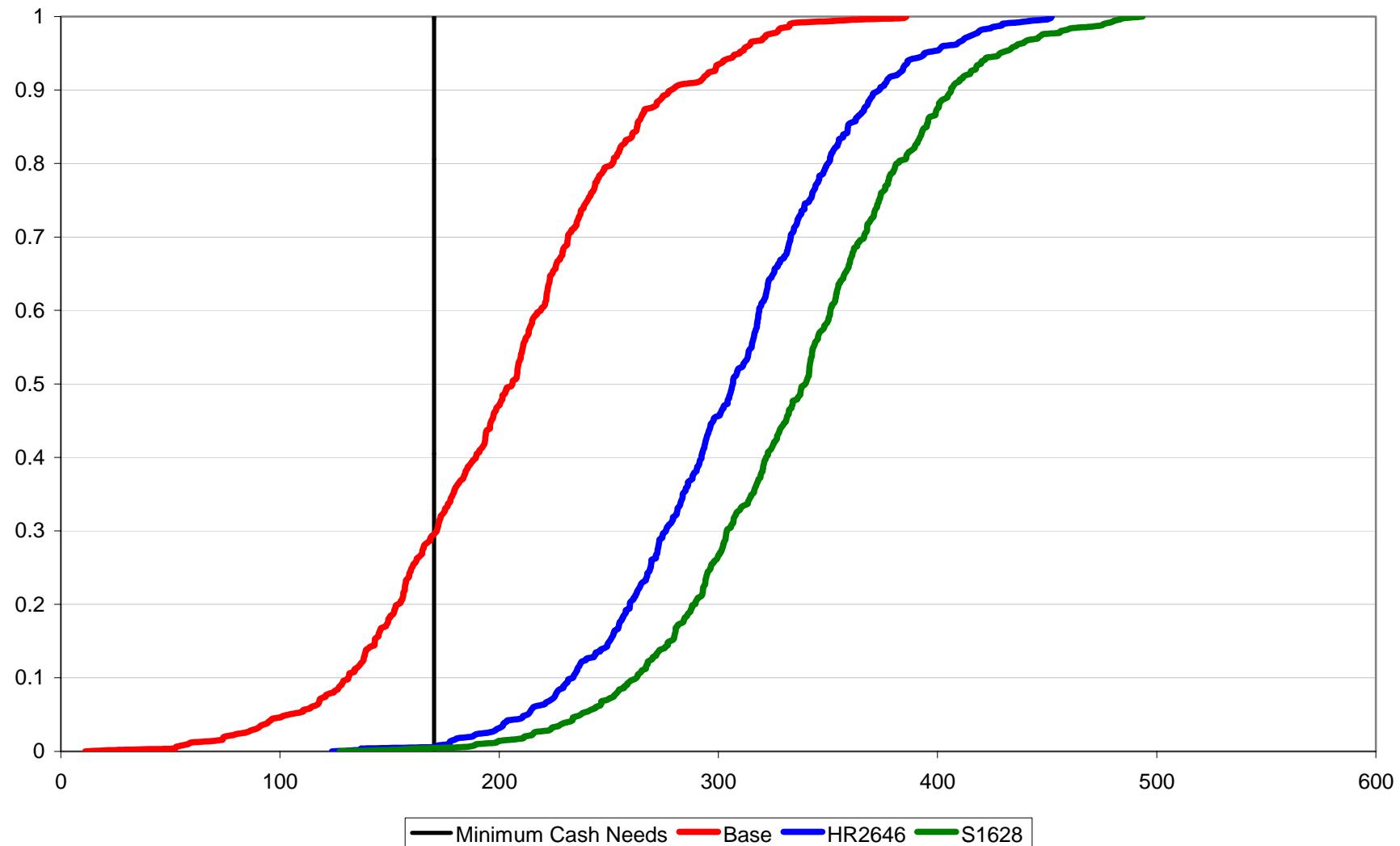
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the CAC6000 Representative Cotton Farm



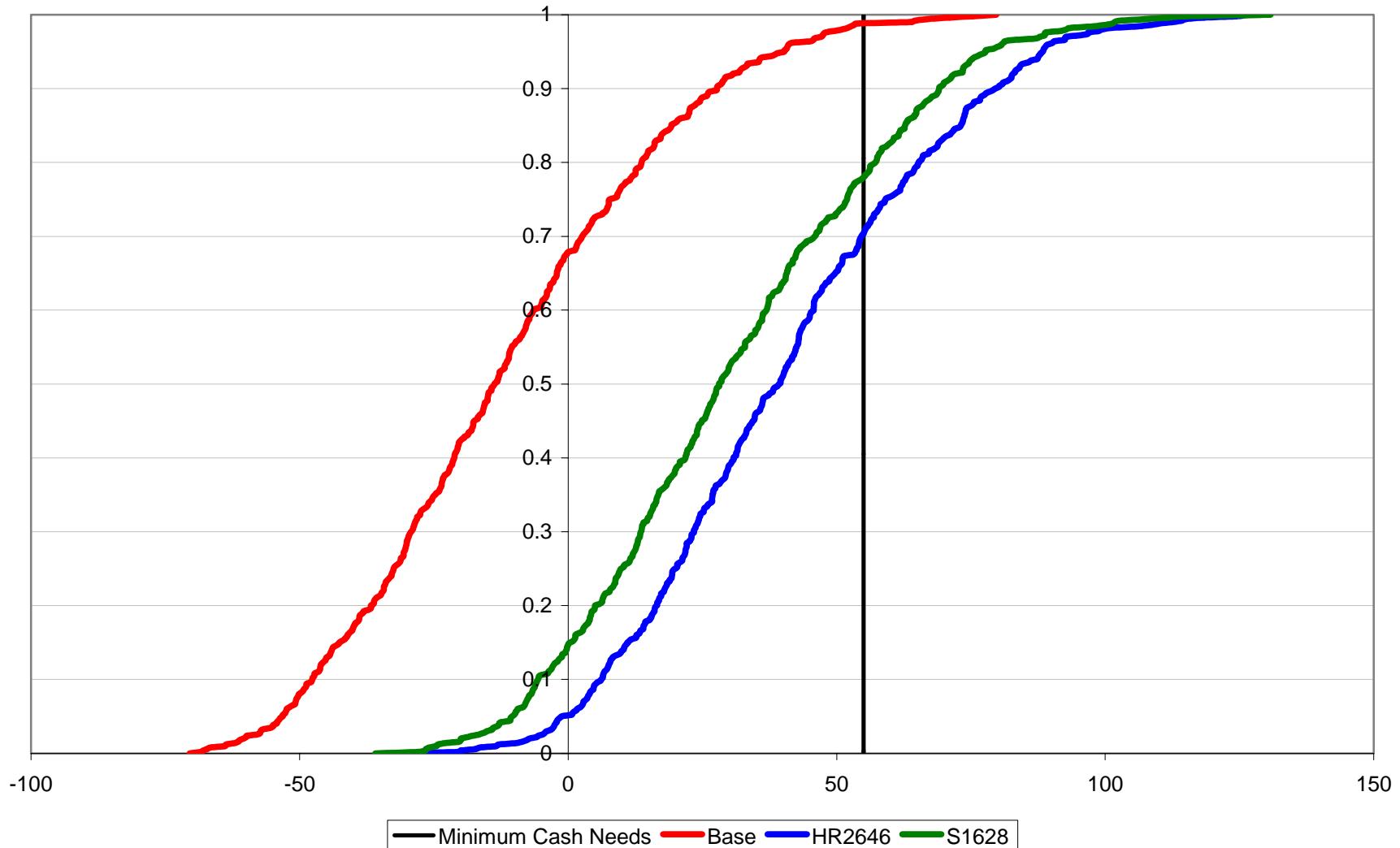
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXSP1682 Representative Cotton Farm



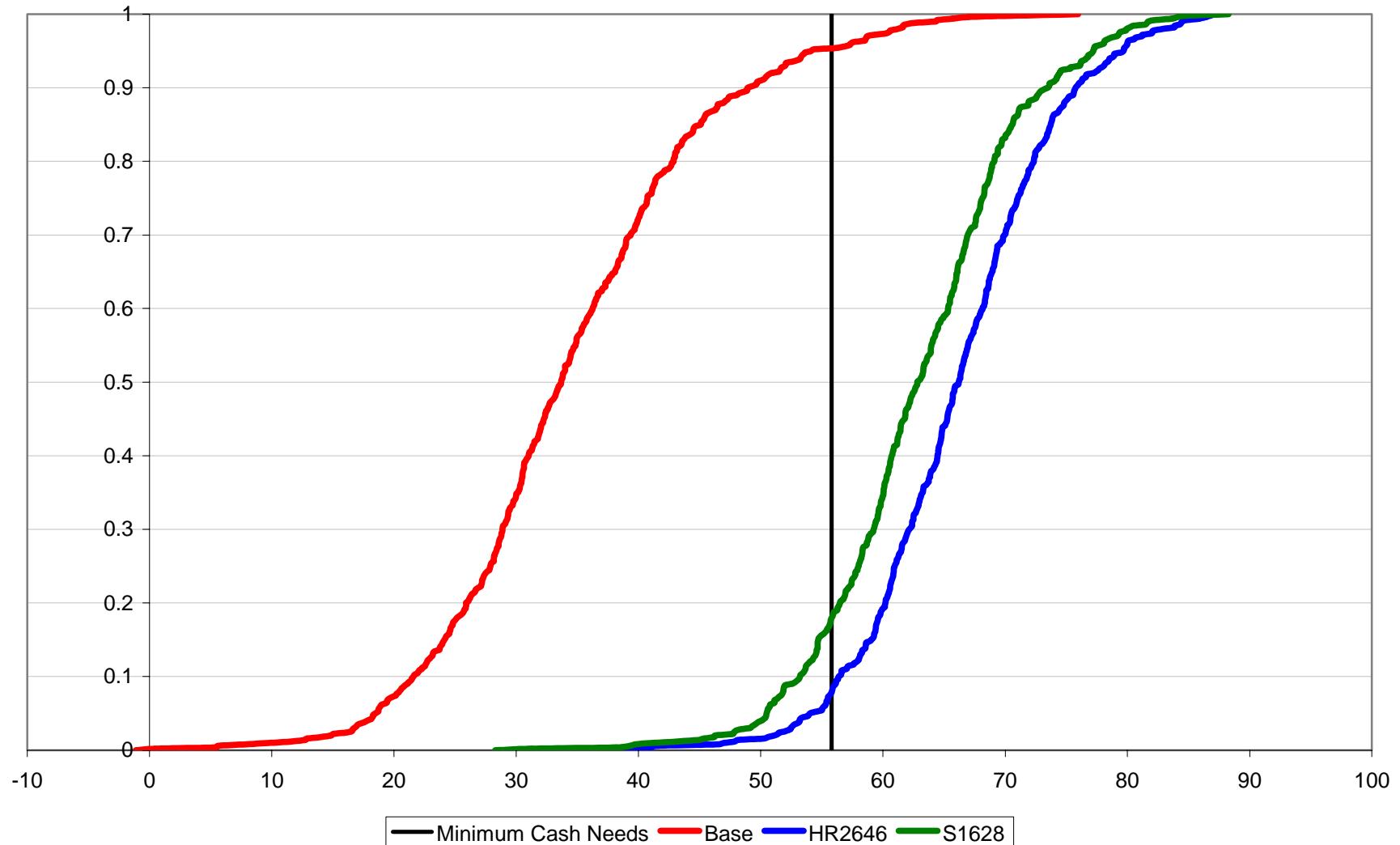
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXSP3697 Representative Cotton Farm



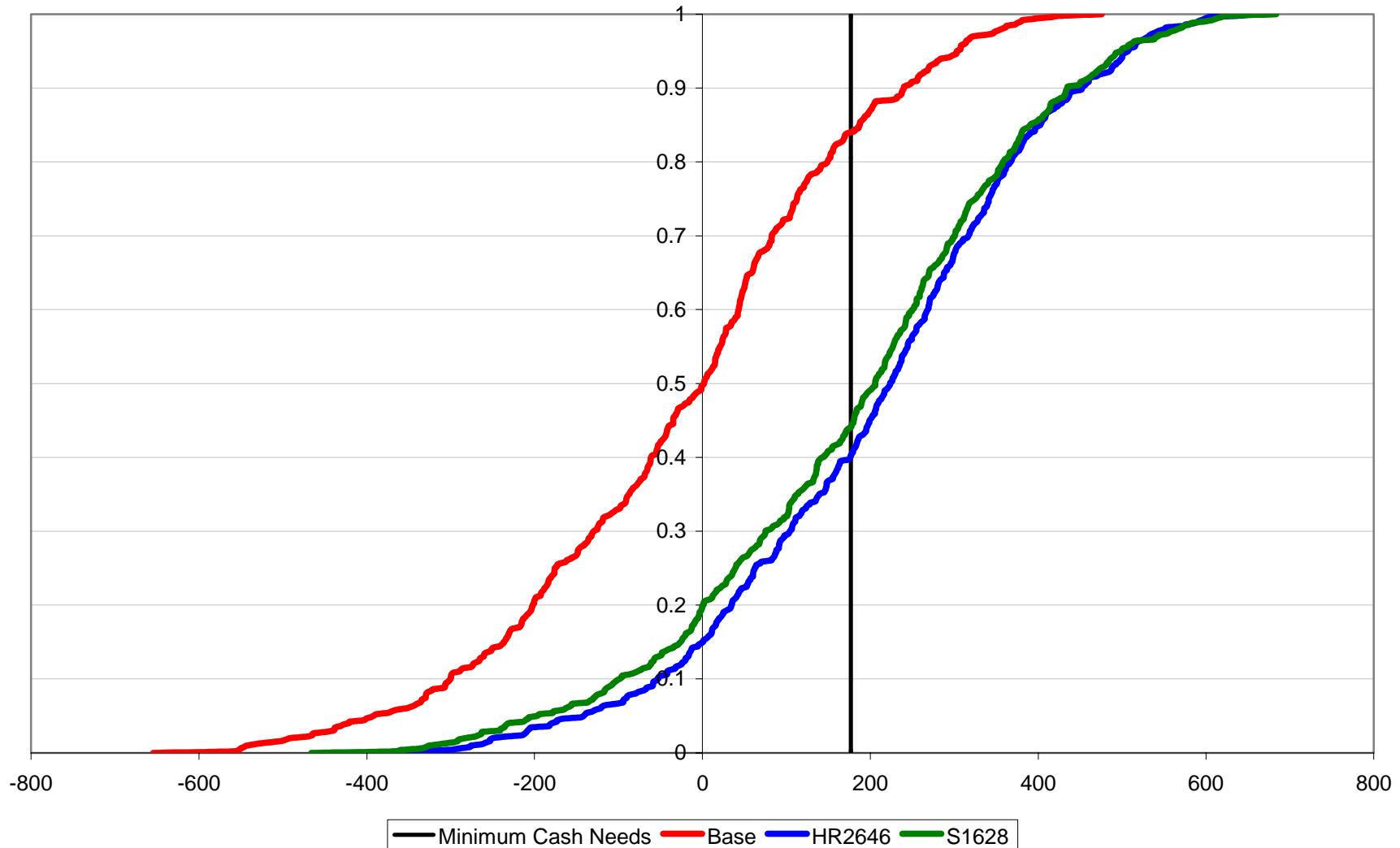
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXRP2500 Representative Cotton Farm



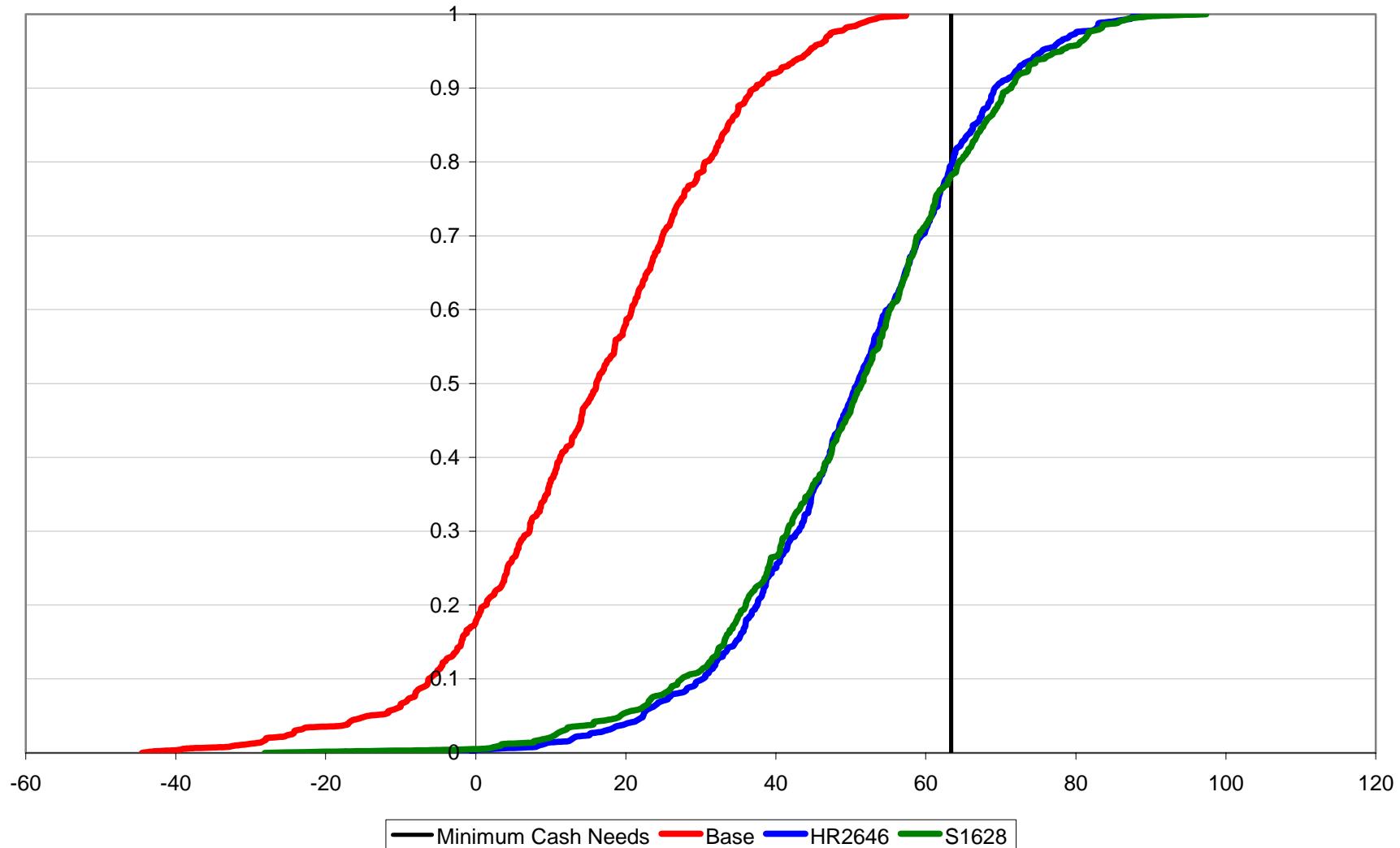
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXBC1400 Representative Cotton Farm



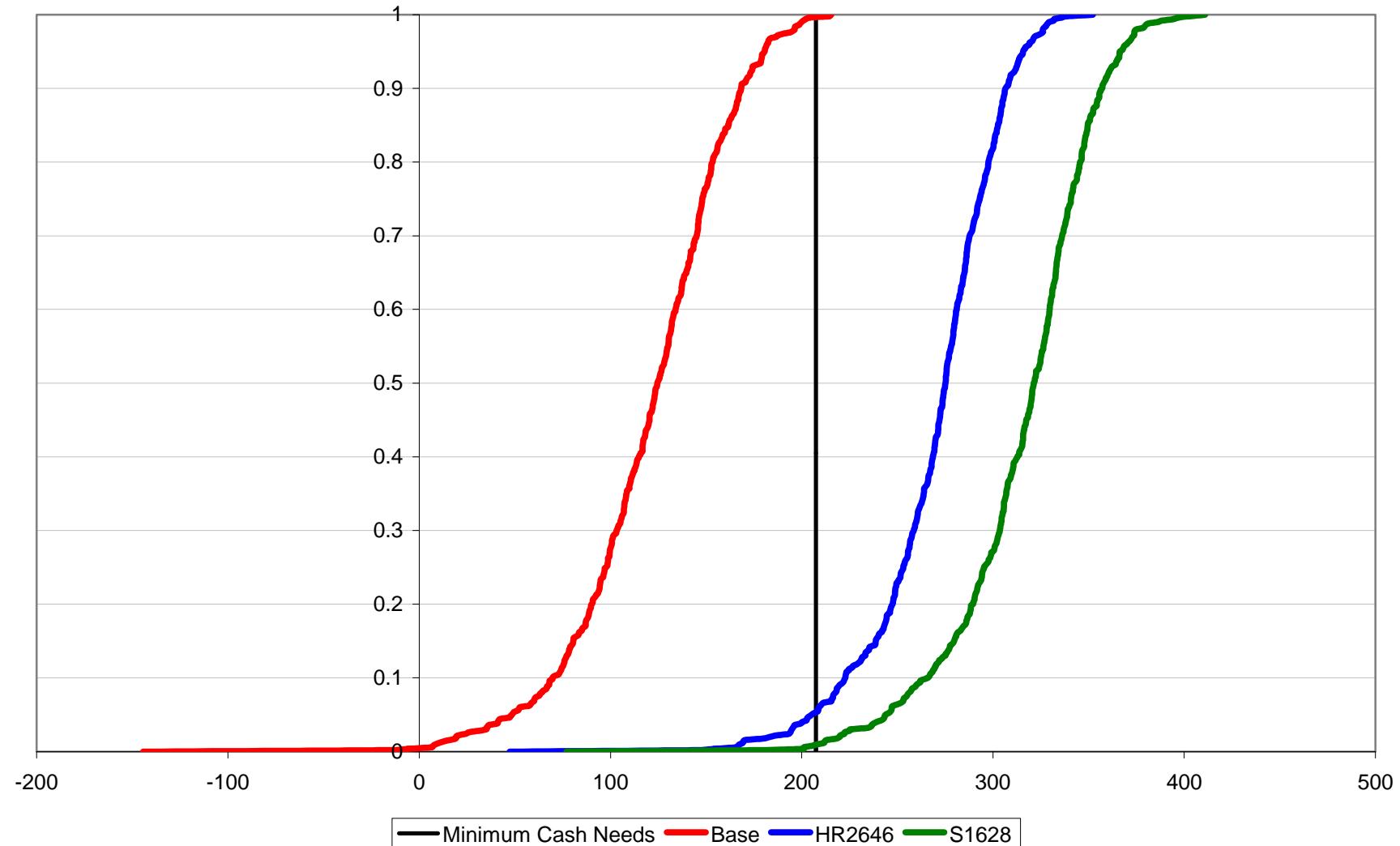
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the CAR2365 Representative Rice Farm



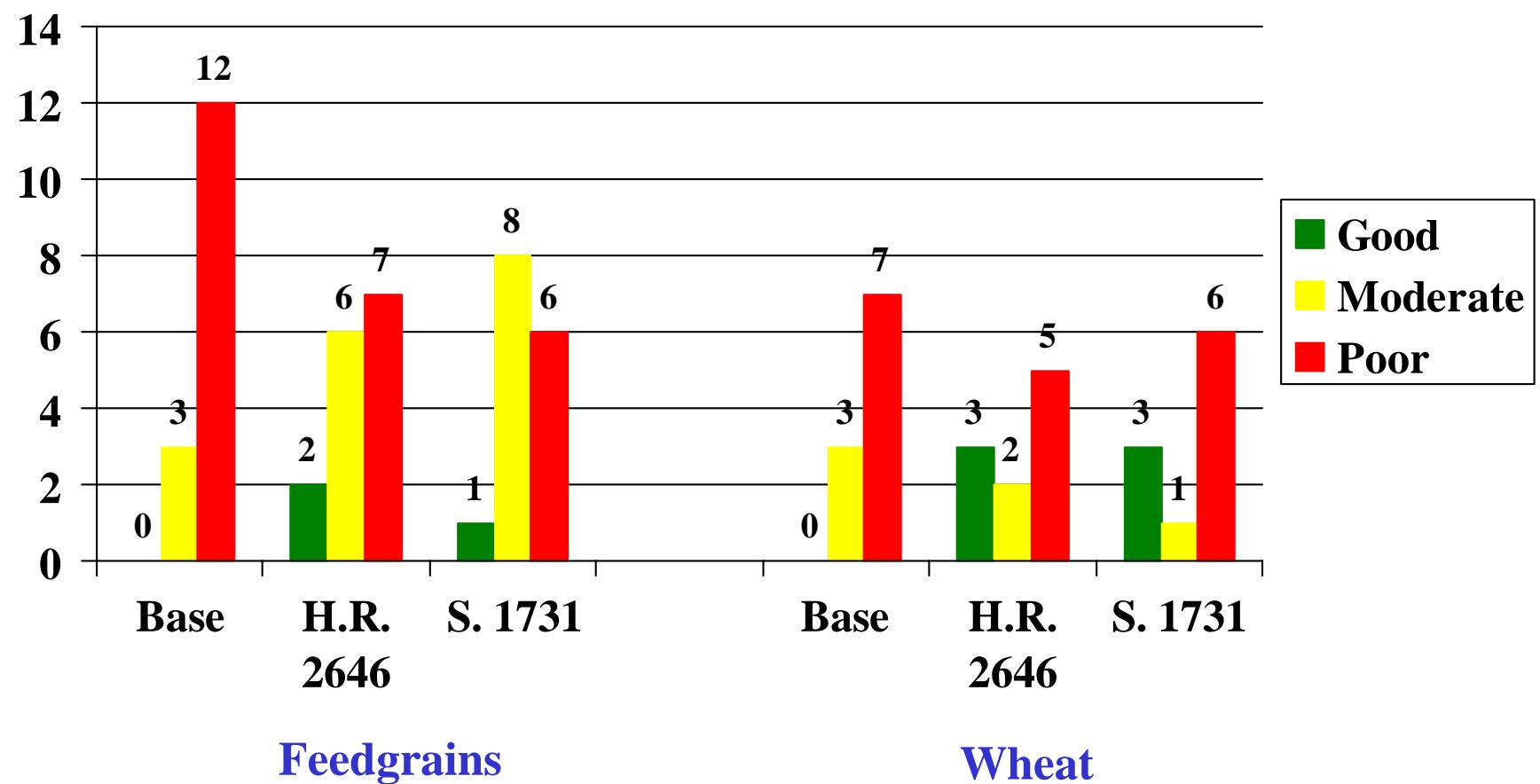
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXR1553 Representative Rice Farm



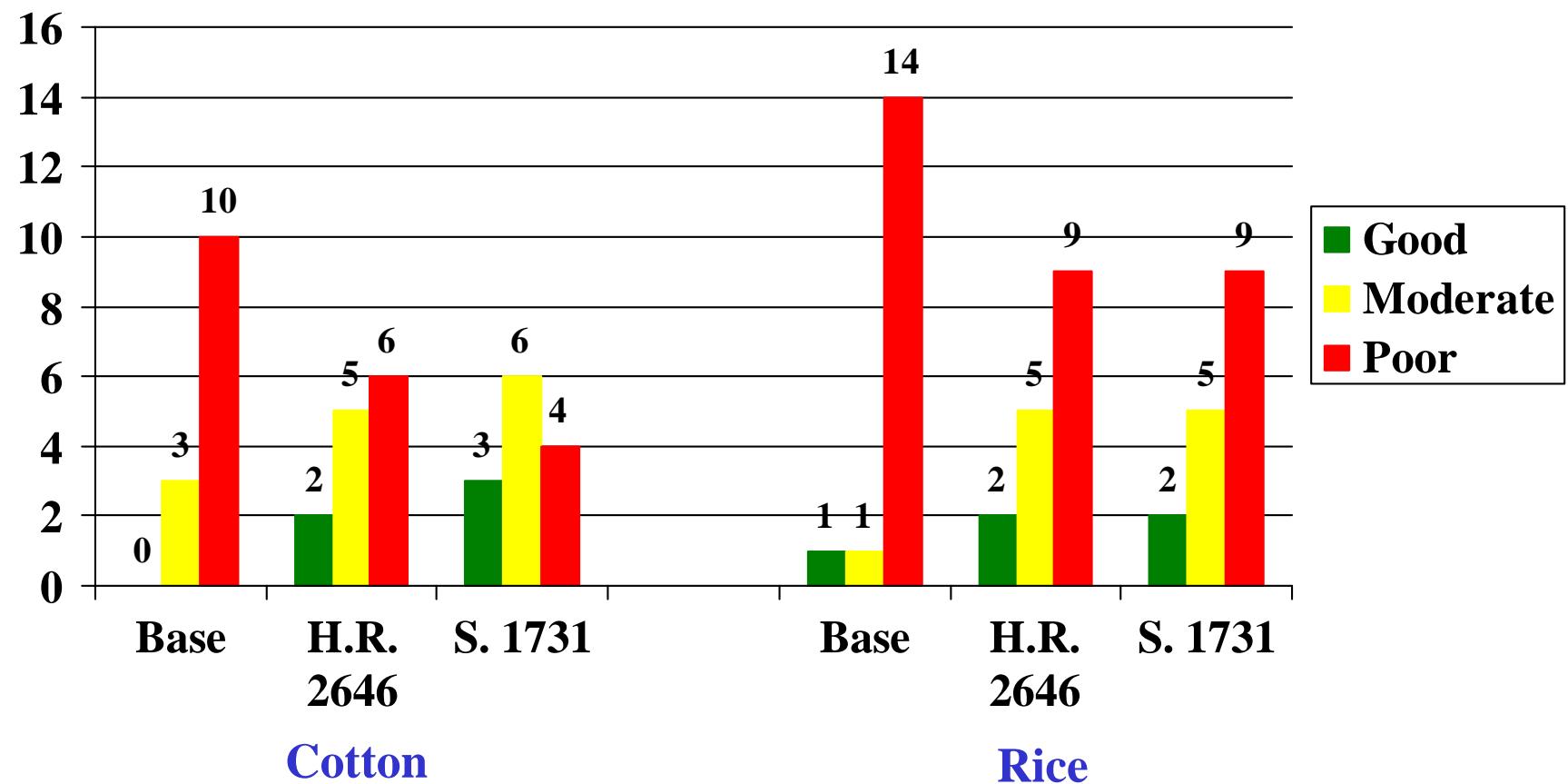
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the ARR3000 Representative Rice Farm



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



Where We Are

- Senate spent much of December debating the farm bill
- Numerous amendments were offered
 - Dairy programs
 - Cochran-Roberts Alternative
 - Adopting the House bill
- It takes 60 votes to invoke cloture, which limits debate to 30 hours. Efforts to limit debate failed on 3 separate occasions. After the third failure, debate was stopped.

Timetable

- Senate convenes on January 23rd and staffers have indicated the desire to move quickly
 - Can more support be found to move the bill forward?
- If bill passes Senate, House-Senate conference to resolve differences
- Then to President



Timetable (Cont.)

- Is the \$73.5 billion on the table in 2002?
 - Budget resolution doesn't expire until April 15th
 - Letter to Combest from Mitch Daniels, OMB
 - Psychology of deficits
- So What About 2002?
 - Can increase AMTA payments for 2002 crops
 - Budget resolution assumes \$7.35 billion for 2002