

FOOD, CONSERVATION, & ENERGY ACT OF 2008 TITLE I and XII

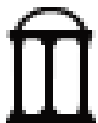
CLEMSON
E X T E N S I O N

Row-Crop Risk Management Seminar
Manning, Florence and St Matthews, SC
February 9-13, 2009



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The University of Georgia



UGA - Center for Agribusiness and Economic Development



2008 Farm Bill

FCEA – Farm Bill 2008

- Food, Conservation, and Energy Act of 2008 – FCEA
- House version July 27, 2007
- Senate version December 14, 2007
- Conference report May 14 – 15, 2008
- Vetoed by President May 21, 2008
- Veto overturned May 21-22, 2008



FCEA – Farm Bill 2008

- FECA becomes Public Law 110-234 on May 22, 2008
- FSRIA (2002 FB) signed into law on May 13, 2002
- FECA first Farm Bill vetoed since 1956 (President Eisenhower – sustained)

FCEA – Farm Bill 2008

- Bill sent to President (parchment) excluded Title III
- 14 of 15 Titles are law
- HR 6124 passed House 5/22 and Senate 6/5 with all Titles
- President vetoed 6124 on 6/18 and both House and Senate overrode on same day
- HR 6124 repeals PL 110-234 as PL 110-246



VETO

- Income Means test
- WTO compliance (planting limitation)
- Beneficial interest MLG/LDP
- Increased cost with 'gimmickry' offsets
- ACRE program
- Permanent disaster
- Other issues

FCEA 2008 Titles

I – Commodity Programs

II – Conservation

III – Trade

IV – Nutrition

V – Credit

VI – Rural Development

VII – Research and Related Matters

VIII – Forestry

IX – Energy

X – Horticulture and Organic Agriculture

XI – Livestock

XII – Crop Insurance and Disaster Assistance Programs

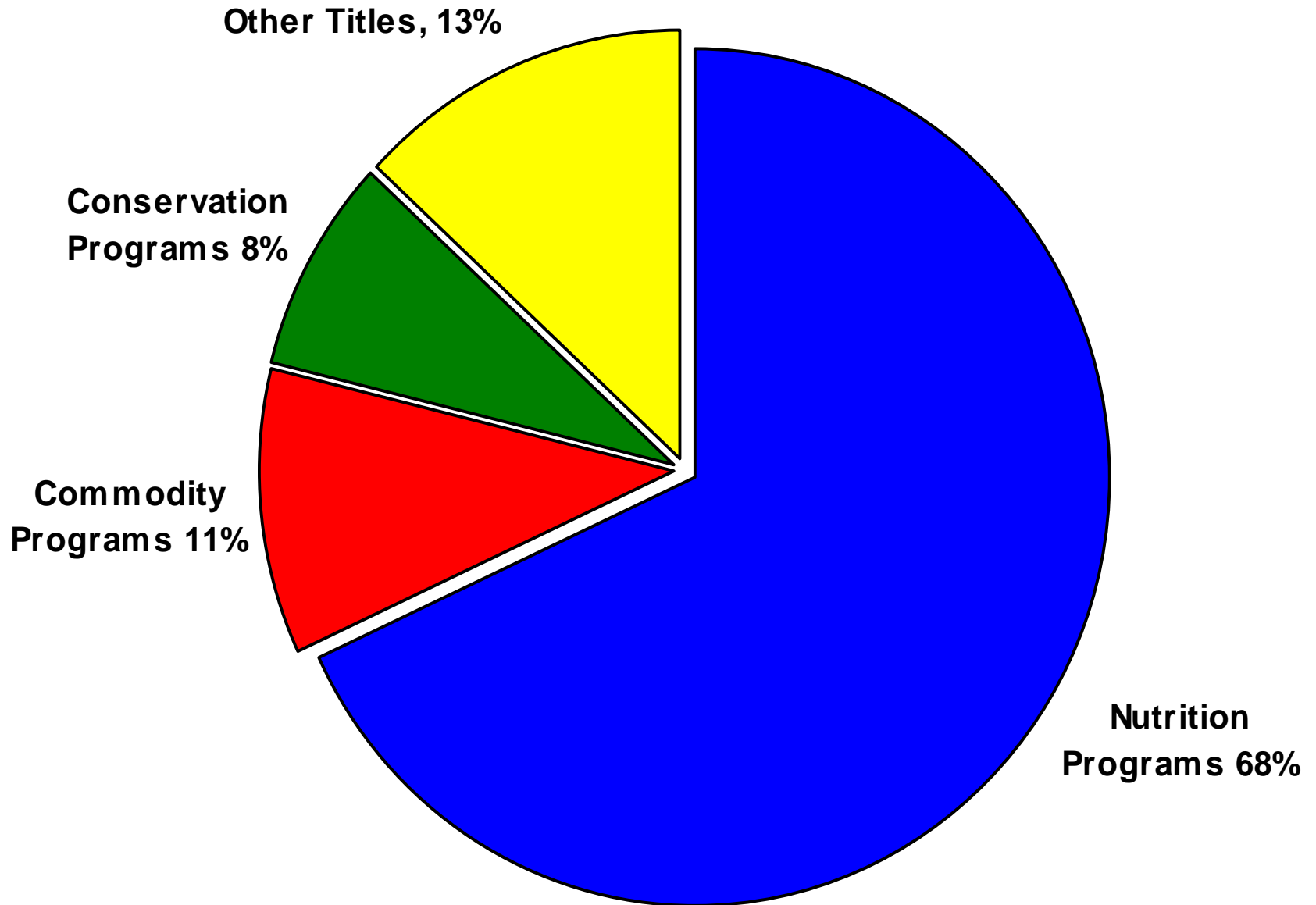
XIII – Commodity Futures

XIV – Miscellaneous

XV – Trade and Tax Provisions



FCEA \$307 Billion 2008 - 2012



STA & BR
Subject
To
Appropriations
&
Budget Reconciliation



Title I – Commodity Programs

- Direct payments and Counter-Cyclical payments (DCP)
- **Average Crop Revenue Election program (ACRE)**
- Marketing Assistance Loan Program
- Peanuts, Sugar, and Dairy
- Payment Limitations

DCP Program

- Base acres, direct payment yields, and counter-cyclical yields remain the same from '02 FB through 2012
- Direct payment rates same - 2012
- Program operates in 2008 as in 2007
- Changes in payment acres 2009-2011
- Change in target price for wheat, beans 2010-2012

DCP Program Payment Acres

- Direct payment acres*:
 - 2008 = 85% of base
 - 2009-2011 = **83.3%** of base
 - 2012 = 85% of base
- Counter-Cyclical payment acres*:
 - 2008 – 2012 = 85% of base
- *Includes peanuts

Timing of Direct Payments

- Advance payment: up to 22% of total must specify month from Dec – Sept 2008 – 2011. Final payment in Oct
- **2012**: no advance available

Timing of Counter-Cyclical Payments

- 2008 – 2010: 40% of projected CCP after 6 months of marketing year. Final payment after end of marketing year (as soon as practicable or Oct 1)
- **2011-2012:** Total payment made after end of marketing year - no advances available

Commodity	DP Rate	Target Price			Loan Rate		
Period	2007 2008-12	2007	2008-09	2010-12	2007	2008-09	2010-12
Corn (bu)	\$0.28	\$2.63	\$2.63	\$2.63	\$1.95	\$1.95	\$1.95
Cotton (lb)	\$0.0667	\$0.724	\$0.7125	\$0.7125	\$0.52	\$0.52	\$0.52
Peanuts (ton)	\$36.00	\$495.00	\$495.00	\$495.00	\$355.00	\$355.00	\$355.00
Rice (cwt)	\$2.35	\$10.50	\$10.50	\$10.50	\$6.50	\$6.50	\$6.50
Soybeans (bu)	\$0.44	\$5.80	\$5.80	\$6.00	\$5.00	\$5.00	\$5.00
Wheat (bu)	\$0.52	\$3.92	\$3.92	\$4.17	\$2.75	\$2.75	\$2.94

Average Crop Revenue Election

- ACRE is one time irrevocable election beginning in 2009
- Election is for all crops
- May elect in 2009, 2010, 2011, or 2012
- Agree to **20% reduction in all direct payments and 30% reduction in loan rates**



ACRE

- ACRE is a production program:
only on planted acres of the crop
- Cannot exceed base acres on the farm
 - **Producer can choose covered acres**
- ACRE is by **individual farm number**
- If producer does not make an election for ACRE then DCP applies

ACRE

- Triggers if the **actual state revenue** for the crop year for the crop **is less than the ACRE program guarantee**
- ACRE payments will be made to producers only if their **actual farm value** for the crop **is less than the farm ACRE benchmark revenue for the crop**
- ACRE payments will be made beginning October 1 after the end of the marketing year for the 2009 through 2012 crop years

ACRE

- The **actual state revenue** for a crop year is equal to the **actual state yield for each planted acre times the national average market price** for the crop year
- The **actual state yield equals *total production* divided by the *number of acres planted***

ACRE

- The national average market price equals the **greater** of the national average **market price** received by producers for the 12-month marketing year or, **70% of the marketing assistance loan rate**
- The ACRE **program guarantee** for a crop equals **90 % of the benchmark state yield times the ACRE program guarantee price**



ACRE - Cup and Cap

- **The ACRE program guarantee for a crop year cannot decrease or increase more than 10 percent from the guarantee for the preceding crop year for the 2010 through 2012 crop years**



ACRE

- The benchmark state yield equals the Olympic average yield for the most recent 5 crop year yields using NASS data
- The ACRE program guarantee price is the average of the *national average market price* for the most recent 2 crop years



ACRE

- States in which at least 25 percent of the acreage planted is irrigated and at least 25 percent of the acreage planted is not irrigated; a separate ACRE program guarantee will be calculated for the irrigated and non-irrigated areas

ACRE

- The amount of the **actual farm revenue** equals the **actual yield** for the farm times the **national average market price**
- The **farm ACRE benchmark revenue** equals the **Olympic average yield per planted acre** for the most recent 5 crop years, times the **ACRE program guarantee price** added to the amount per acre crop insurance premium paid

ACRE

- ACRE payments equal the lesser of the difference between the ACRE program guarantee and the actual state revenue and **25 % of the ACRE program guarantee** times (2009- 2011) **83.3 %** of the acres planted or considered planted or (2012) 85% times *the quotient of the Olympic average farm yield by the benchmark state yield*

Average Crop Revenue Election

State ACRE Guarantee = 90%
X 5-Year Olympic State Avg. Yield X
2-year Natl. Average Mkt. Yr. Price
Restricted to < 10% change/year
"cup and cap"

>

Actual State Revenue =
Actual State Planted Acre Yield X
MAX [Natl. Average Mkt. Yr. Price **OR**
70% Loan Rate]

AND Farm Trigger

Farm ACRE Benchmark =
(Farm's 5-Year Olympic Avg. Yield X
2-year Natl. Average Mkt. Yr.
Price) + Ins Premium

>

Actual Farm Revenue =
Actual Farm's Planted Acre Yield X
MAX [Natl. Average Mkt. Yr. Price
OR 70% Loan Rate]

Farm Payment = 0.833 (0.85 in 2012) * Actual Planted or Considered Planted Acres X
[**Farm's 5-Year Olympic Average Yield / State's 5-year Olympic Average Yield**] X
MIN[(State ACRE Guarantee – Actual State Revenue) OR State ACRE Guarantee * 25%]

Producer Compliance (DCP/ACRE)

- Virtually same as 2002 for DCP
- Must file acreage reports
- Must file **production reports** on all covered commodities and peanuts if enrolled in **ACRE**
- Planting flexibility remains the same no fruits/trees/vegetables on base



ACRE Decision - 2009

- If the farm has cotton or peanut base:
 - **NO** - direct payment cost and ccp loss, LDP/MLG loss due to 30% reduction in loan value
- Insignificant or no cotton or peanut base, but may plant cotton or peanuts in 2010 – 2012
 - **NO** - loss of LDP/MLG (peanut contracts?)



ACRE Decision - 2009

- Insignificant or no cotton or peanut base and will not plant either 2010 – 2012
 - **Possibly** – depending on crops you intend to plant:
 - Wheat – best
 - Soybeans – minimal price
 - Corn – greatest movement in price and yield

ACRE Example Farms

Driggers Farm

Commodity	Base Acres	Direct and CC Yield	Acres Planted Total
Cotton	80	770 lbs	80
Peanuts	20	3150 lbs	20

Old McDonald Farm

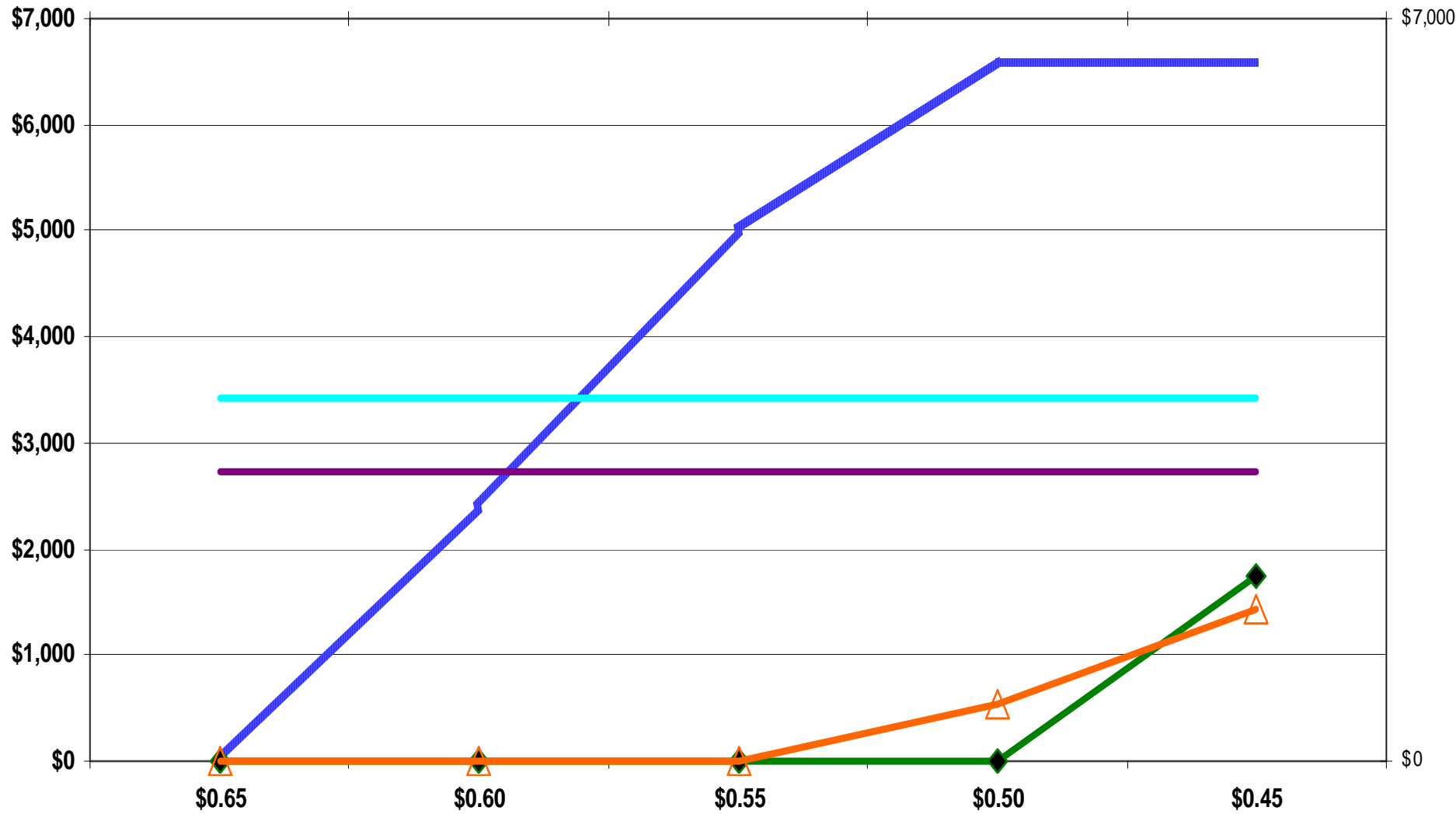
Commodity	Base Acres	Direct and CC Yield	Acres Planted Individually
Wheat	20	48 bu	100
Corn	60	100 bu	100
Soybeans	40	25 bu	100

South Carolina Commodities	Olympic Average State Yields	ACRE Program Guarantee Price	State ACRE Program Guarantee
Wheat	48.3	\$6.590	\$287
Corn	102.3	\$4.100	\$378
Cotton	771.7	\$0.537	\$373
Peanuts	3166.7	\$0.223	\$634
Soybeans	25.5	\$9.550	\$219

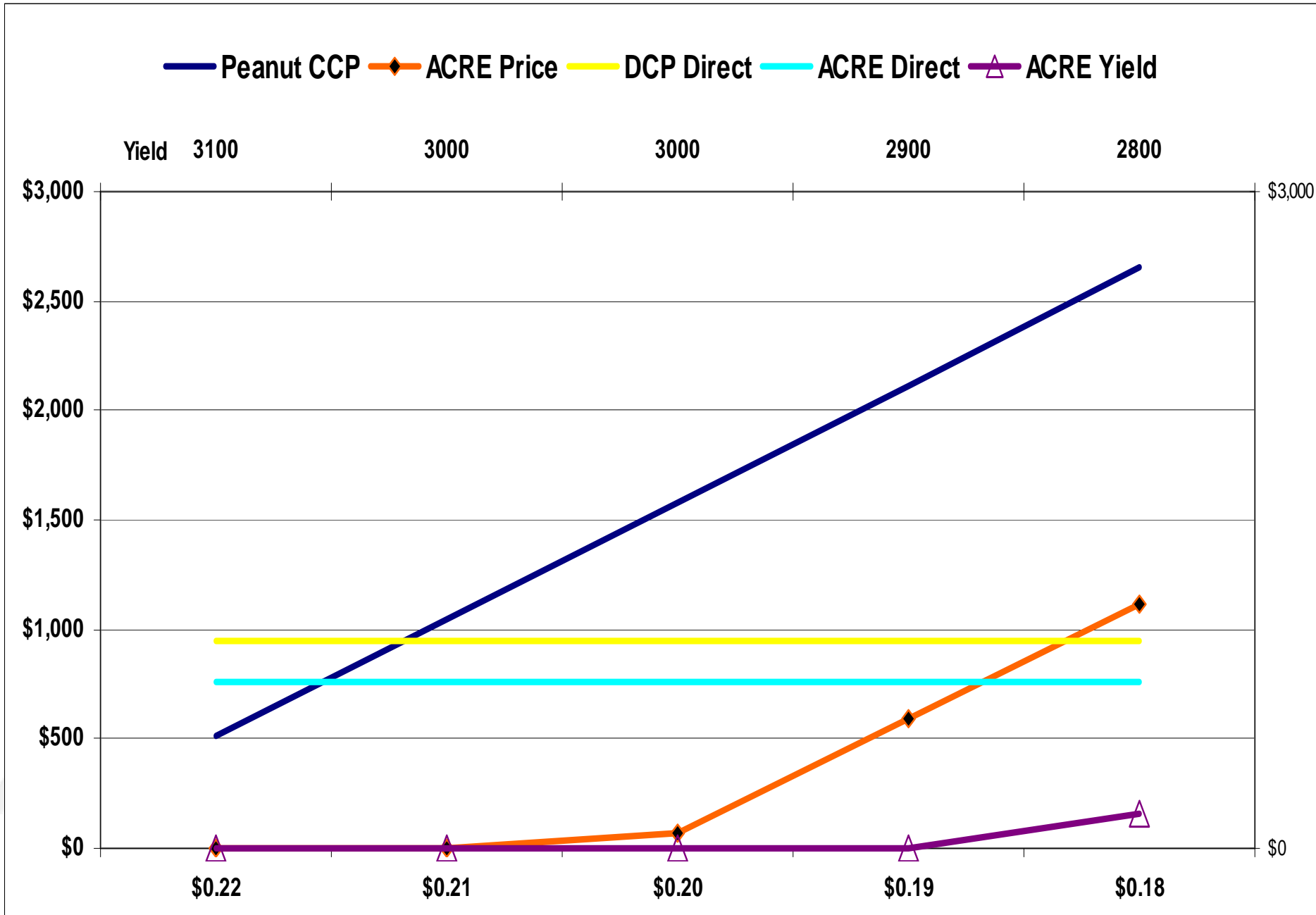
Cotton Planted to 80 acres

Cotton CCP Cotton ACRE Price DCP Direct
ACRE Direct Cotton ACRE Yield

Yield 750 725 700 675 650

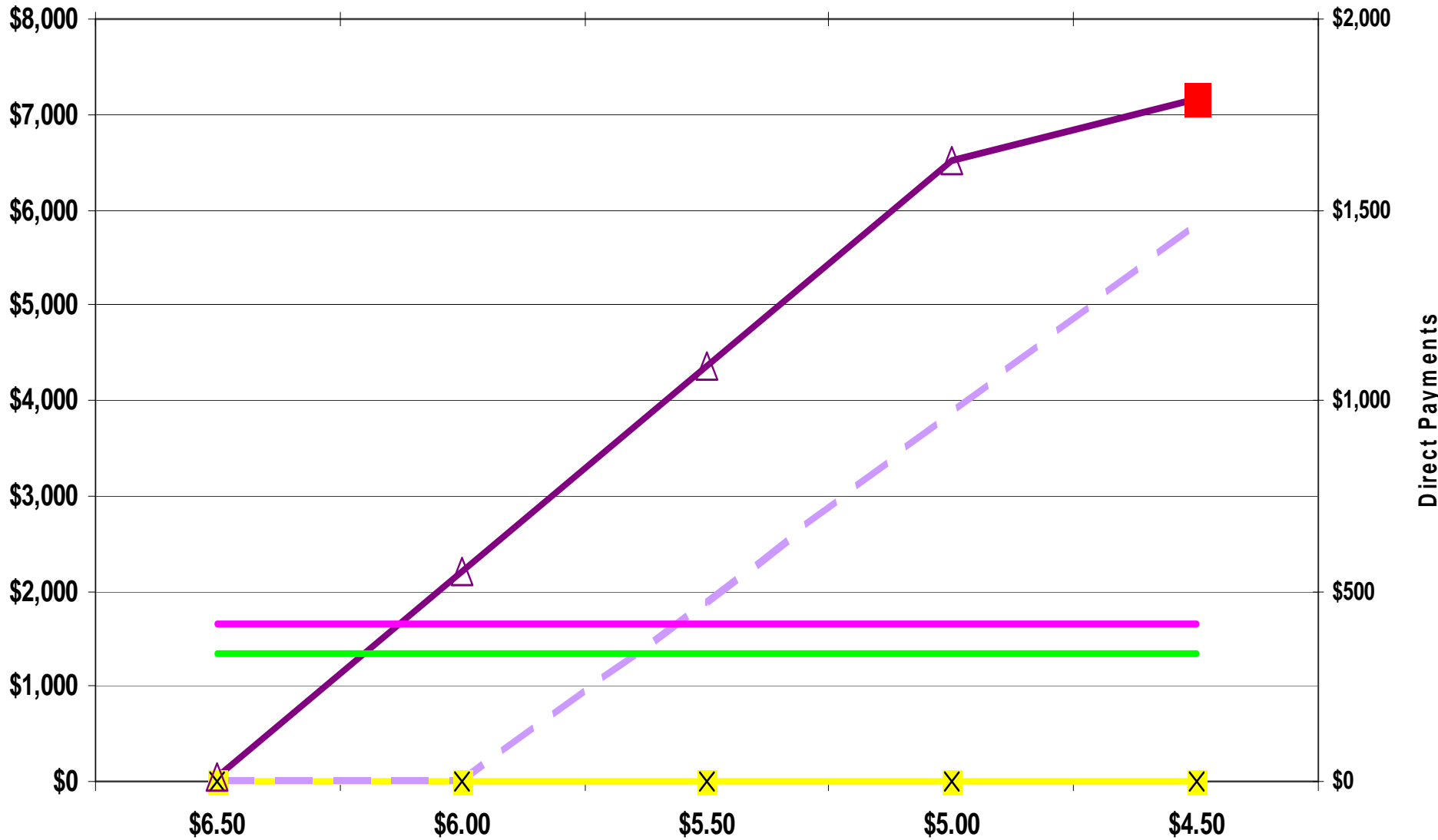


Peanuts Planted to 20 acres



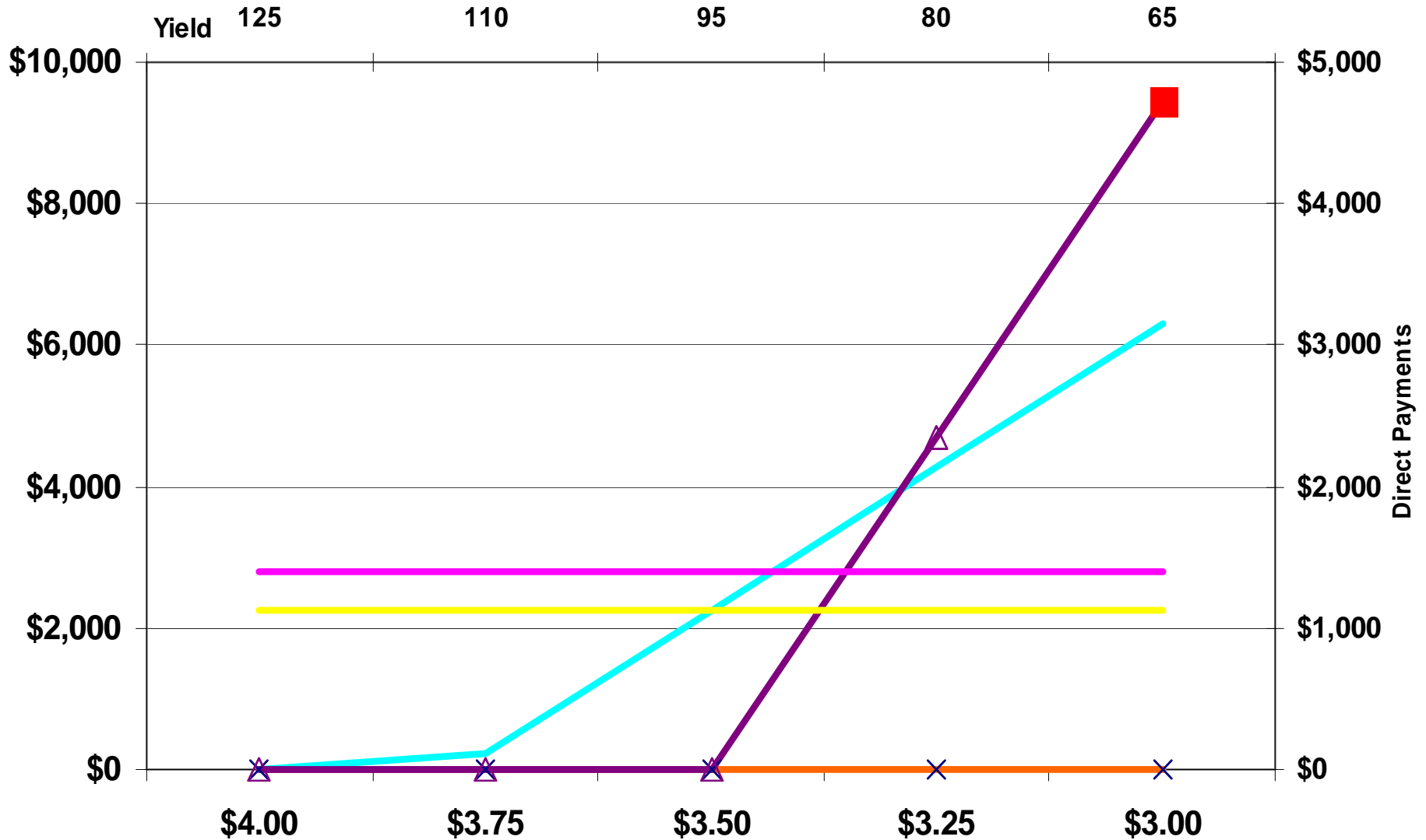
Wheat Planted to 100 acres

Wheat CCP ACRE Price ACRE Yield DCP Direct ACRE Direct



Corn Planted to 100 acres

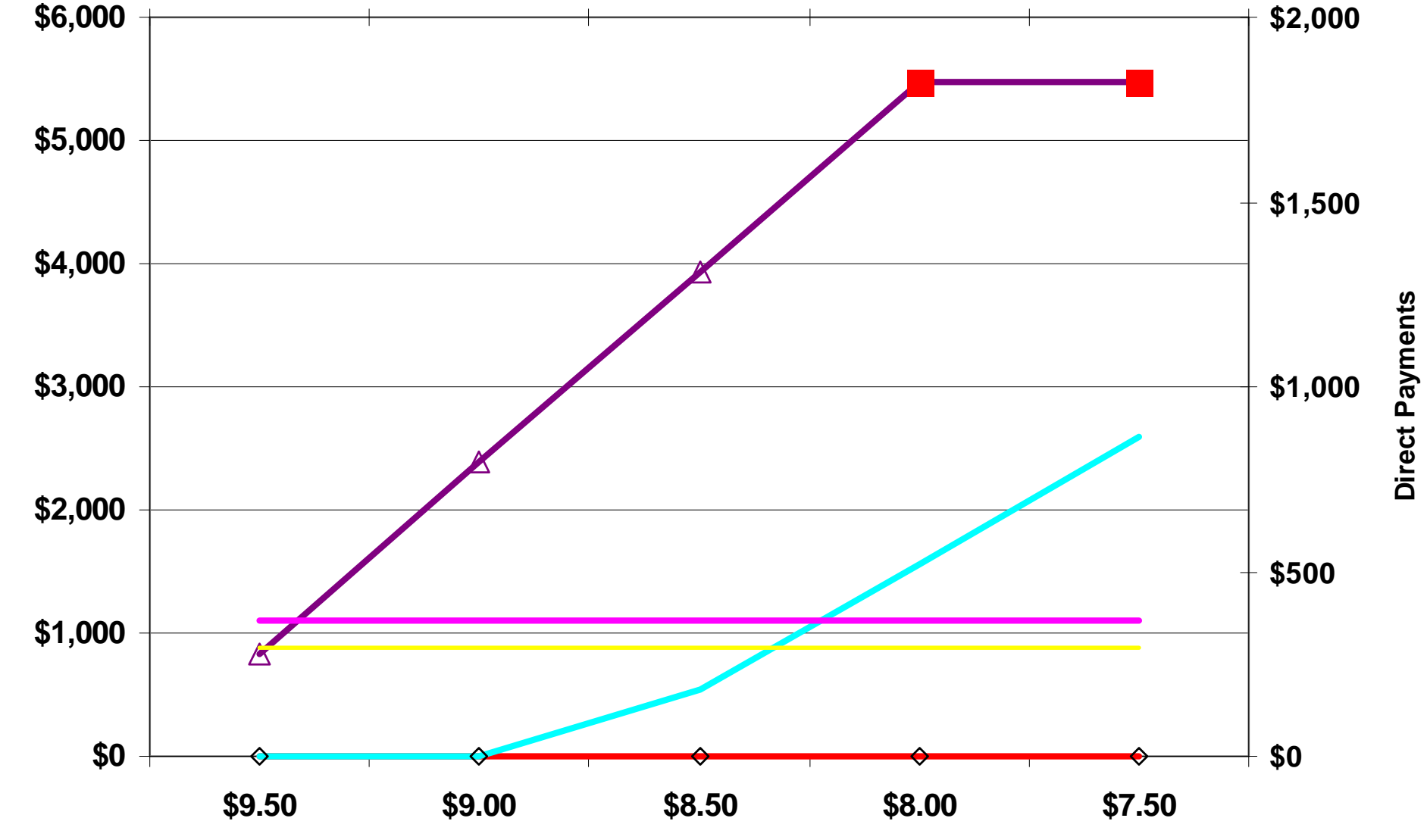
✕ Corn CCP — ACRE Price △ ACRE Yield — DCP Direct — ACRE Direct



Soybeans Planted to 100 acres

◆ Soybean CCP
 — ACRE Price
 △ ACRE Yield
 — DCP Direct
 — ACRE Direct

Yield
22
20
18
16
14



Marketing Assistance Loans/LDPs

- Same as 2002 Farm Bill with a few changes
- Loan rate on wheat increases to \$2.94
- Loan repayment rates based on avg market prices during previous 30 day period *except* for *cotton, peanuts and rice*
- Secretarial discretion provided (LRR)

Marketing Assistance Loans/LDPs

- Cotton and Rice loan repayment rate is the lesser of
 - **Loan rate + interest**
 - **Prevailing world market price**
- Cotton storage will be reduced by 10%

Marketing Assistance Loans/LDPs

- Loan Deficiency Payments calculated from loan repayment rates (30 day) or cotton, peanut, or rice LRRs
- *Beneficial interest may be retained*

Economic Assistance to Upland Cotton Users

- Beginning 8/1/08 thru 7/31/12 economic assistance is provided at the rate of **4¢ per lb to domestic users of upland cotton**
- After 8/1/12 support is 3¢ per lb
- **Acquire, construct, install, modernize, develop, convert, or expand land, plant, bldgs, equip, facilities, or machinery**
- Paid monthly based on previous month's use

Target price reduction



Peanuts

- Separate title
- Separate payment limits
- Timing of payments same as covered
- Handling and associated costs paid by CCC on loan peanuts
- Redeemed peanut loans repay handling and associated costs

Peanuts

- *CCC pays storage, handling, and associated costs on all forfeited peanut loans*
- LRR and LDPs calculated on date of request of payment

Payment Limitations – Adjusted Gross Income (AGI)

- A person or legal entity is not eligible to receive commodity program benefits such as **direct payments and counter-cyclical payments or Average Crop Revenue Election (ACRE) program payments** if the average adjusted gross income (**AGI**) of the person or legal entity **from nonfarm sources exceeds \$500,000**



Payment Limitations - AGI

- A person or legal entity is not eligible for **direct payments** if the average adjusted gross income from **farming, ranching, and forestry operations of the person or legal entity exceeds \$750,000**

Payment Limitations - AGI

- A person or legal entity is ineligible for conservation program benefits or payments if the average adjusted gross *nonfarm* income of the person or legal entity **exceeds \$1,000,000, unless not less than 66.66 percent of the adjusted gross income of the person or legal entity is derived from farming, ranching, and forestry operations**



Payment Limitations 2009-2012

- **DCP/ACRE AGI:**
 - **Farmer** **\$750,000 (no direct payments)**
 - **Non-farmer** **\$500,000**
- **Conservation programs:**
 - **AGI limit \$1 million unless 2/3 from farm and forestry**
- **Direct attribution - 3 entity rule repealed**
- **Spouse eligibility with qualifications**

Payment Limitations

- Direct payment limit*: **\$40,000**
- Counter-Cyclical limit*: **\$65,000**
- ACRE direct limit*: **\$40,000 – 20% DP**
- ACRE limit*: **\$65,000 + DP reduction**
- No MLG/LDP limit after 2008*

*including peanuts

- DP and CCP limits ⇔ 2008 – 2012
- ACRE limits ⇔ 2009 - 2012

Payment Limits – Direct Attribution

- Individual social security numbers and tax id numbers for legal entities
- Individual can be part of unlimited number of entities, but individual limit applies from attribution

Payment Limits – Eligibility

- **Right hand: labor and management**
- **Left hand: capital, equipment, or land**
- Spouse granted **right hand** contribution as actively engaged, must meet **left hand** as significant and requisite contribution – separate of other spouse

Payment Limits - Eligibility

- The 2008 Farm Bill requires a *significant* contribution of active personal labor or active personal management to a farming operation to qualify a person or legal entity for payment

Payment Limits – Partnerships

- Joint Venture (JV) or General Partnerships (GP): will not exceed the payment limit multiplied by the number of persons or legal entities (other than JVs and GPs) that comprise the direct ownership of the JV or GP

Payment Limits – Partnerships Example

- Father, two sons, and legal entity form GP all payment eligible:
 - **DCP DP Limit: $(4)*(\$40,000) = \$160,000$**
 - **ACRE DP Limit: $(4)*(\$40,000-\$8,000) = \$128,000$**
 - **CCP Limit: $(4)*(\$65,000) = \$260,000$**
 - **ACRE Limit: $(4)*(\$65,000+\$8,000) = \$292,000$**

Payment Limits - Legal Entities

- **Active personal labor, active personal management, or a combination** thereof, by each member or shareholder that has an ownership interest in an **entity** is required, and such contributions must be **significant and commensurate**

Payment Limits - Legal Entities

- Active personal labor or active personal management of each member:
 - **must be made to the farming operation on a regular basis**
 - **must be identifiable and documentable as a separate and distinct contribution from that of any other member or shareholder in the farming operation.**

Payment Limits - Legal Entities

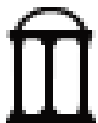
- Legal entities have same program payment limits as individuals
- If any member exceeds individual payment limit, the payments to the entity are **reduced by the percentage share of the member**
- If a member is not payment eligible (labor/mgt) entity payment **reduced by the percentage share of member**

Example of Distinct Labor/Mgt

- Corp ABC with 4 members (1,2,3,4)
 - 1 – **Executes** all marketing (contracts/grain deliveries/gin transactions) 25% owner
 - 2 - **Purchases** all inputs (invoices, purchase orders) 25% owner
 - 3 – **Maintains** payroll and supervision (payroll documents) 25% owner
 - 4 – Provides capital 25% owner
- Payments reduced by 25% as 4 is not eligible due to no labor/mgt contributed

Title XV – Supplemental Agricultural Disaster Assistance

**Amended by H. R. 6849
(P.L. 110-398)
10/13/08**



Title XV – Supplemental Agricultural Disaster Assistance

- The Trade Act of 1974 is amended to create a Supplemental Agricultural Disaster Assistance (SADA) trust fund to provide funds for producers suffering losses in designated disaster areas with a waiver for those farms outside the declared areas when losses exceed 50% for the farm – through **2011**



SADA

- The Trust Fund will support five new disaster assistance programs:
 - **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 (ELAP)**



SADA

- **Except for LIP – ALL SUPPLEMENTAL DISASTER ASSISTANCE PROGRAMS REQUIRE CROP INSURANCE OR NON-INSURED CROP ASSISTANCE PROGRAM (NAP) COVERAGE *FOR EACH CROP OF ECONOMIC SIGNIFICANCE***

SADA

- Payment Limitations
 - **\$100,000 per producer for all SADA except TAP**
 - **\$100,000 per producer TAP**
- Adjusted gross income limitation of \$1 million applies to SADA, unless not less than 66.66 percent of the average adjusted gross income is farm income.

SURE

- The Supplemental Revenue Assistance Program (SURE) provides crop disaster assistance payments for crop production losses or crop quality losses, or both
- Crop disaster payments will be:
 - *60 percent of the difference between the disaster assistance program guarantee and the total farm revenue for the farm*
- The disaster assistance program guarantee for a crop may not exceed 90 percent of the total expected revenue for each of the crops for the farm



SURE

- A disaster county is a county included in the geographic area covered by a qualifying natural disaster declaration, and any county contiguous to a declared county

SURE

- Any farm in which, during a calendar year, the total loss of production of the farm relating to weather is greater than **50 percent** of the normal production of the farm is eligible (*expected revenue*)

SURE Crop Loss Eligibility

- *The actual production yield for at least 1 crop of economic significance must be reduced by at least 10 percent due to disaster (adverse weather) from the actual production history yield*

SURE

A farm constitutes the sum of all crop acreage in all counties that is planted or intended to be planted for harvest by the producer



SURE

- Program guarantee is calculated adding for each insurable commodity the product of:
 - the larger of the APH yield, or the CCP yield **X**
 - the percent of crop insurance yield guarantee **X**
 - the percentage of crop insurance price **X**
 - the crop insurance price **X**
 - the acres planted or prevented planted of the crop **X**
 - 115 percent

SURE

- Noninsurable commodities (NAP) on the farm would be added at the rate of the product of:
 - the NAP yield guarantee **X**
 - the acres planted or prevented planted of the crop **X**
 - 100 percent of the NAP established price **X**
 - 120 percent

SURE

- Total farm revenue equals the sum of:
 - the actual value of each ***economically significant*** crop
 - 15 percent of any direct payments
 - all counter-cyclical or ACRE payments
 - prevented planting payments
 - all crop insurance indemnities
 - payments received under NAP
 - any LDP/MLG
 - and any other disaster assistance payments (ECP etc)



SURE

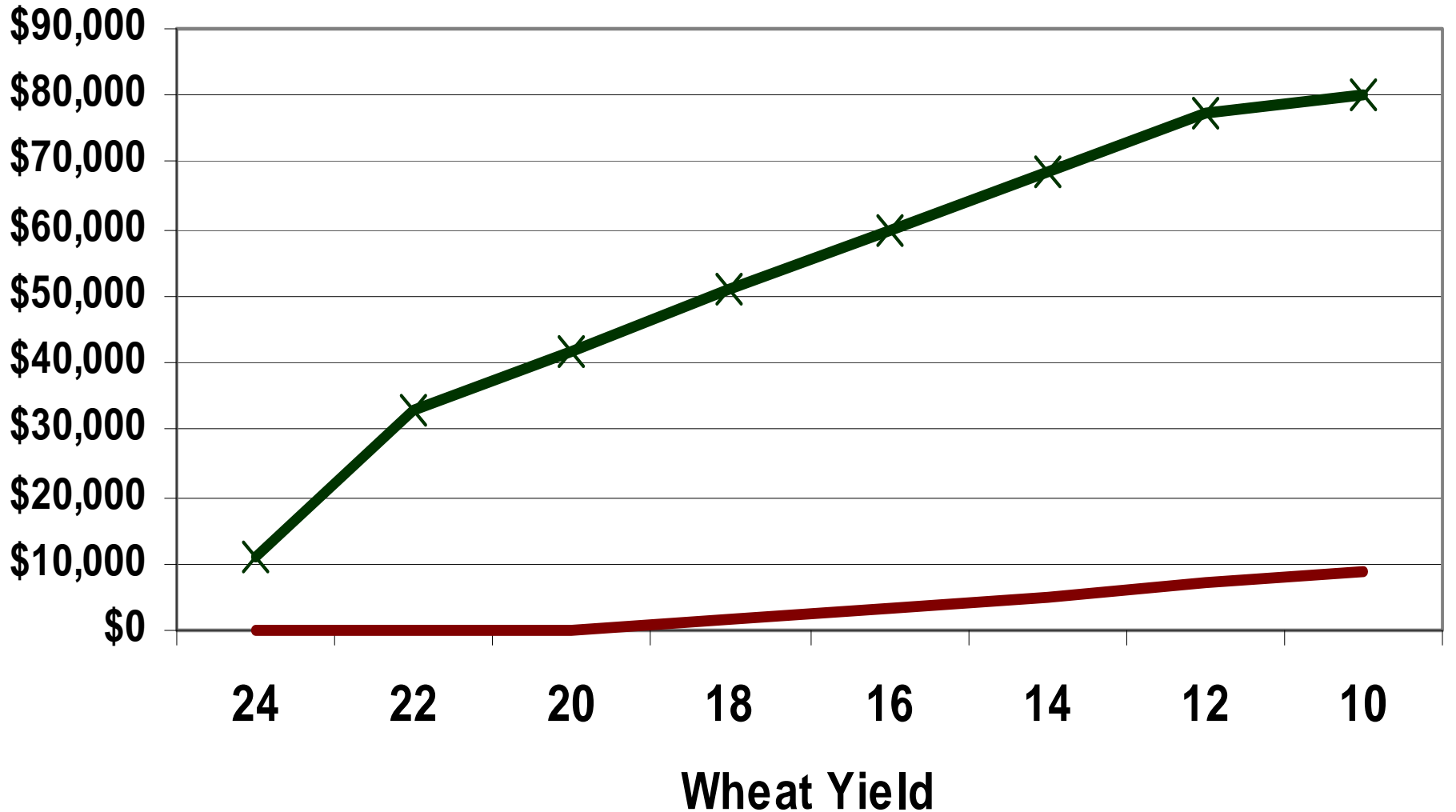
- The actual value for each crop is the product of:
 - the actual crop acreage harvested **X**
 - the actual yield of the crop **X**
 - the market year average price

SURE

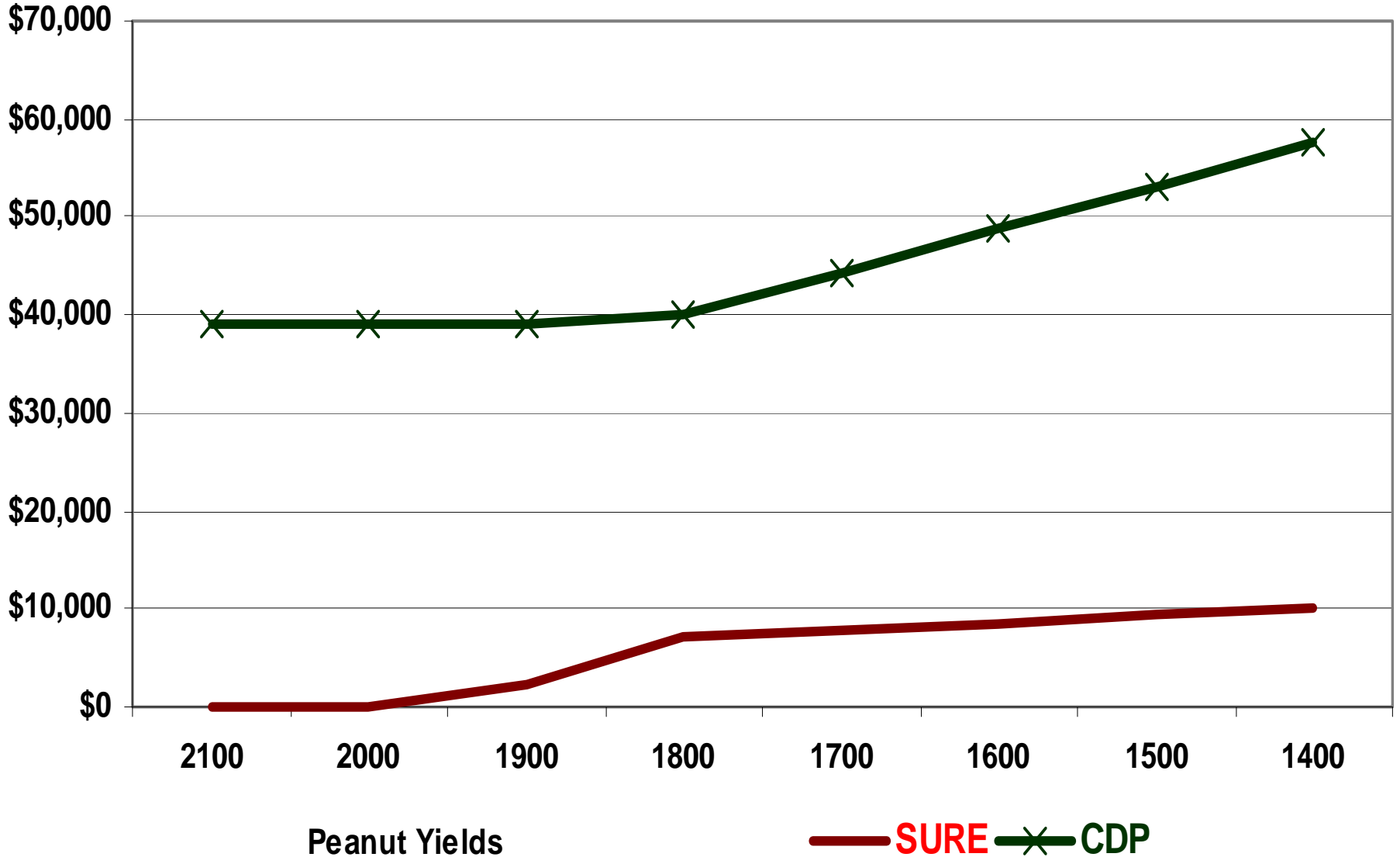
- Adjustments will be made to the average market prices to reflect the average quality discounts applied to the local or regional market price of a crop, hay, or ~~forage~~ due to a reduction resulting from adverse weather

SURE vs CDP Bowman County, ND 1400 ac Wheat, 200 ac Corn (30 bu) Wheat APH 40, Corn APH 100

— SURE **—×— CDP**



SURE vs CDP Georgia Farm 50% Loss in: Cotton (1000 ac, 650 APH). Corn (150 ac, 75 APH), Soybeans (100 ac, 24 APH); normal Wheat crop (100 ac, 40 APH); with Peanuts (400 ac, 2800 APH) at various yields



Commodity 100 acres@ 65% loss	CAT	50%	55%	60%	65%	70%	75%
Cotton 90 APH 685 lbs	0	\$307	\$516	\$726	\$935	\$1,145	\$1,355
Cotton CRC 685 lbs	N/A	\$1,880	\$2,117	\$2,355	\$2,592	\$2,829	\$3,067
Wheat 90 APH 45 bu	0	0	0	0	\$67	\$166	\$265
Wheat CRC 45 bu	N/A	\$967	\$1,087	\$1,207	\$1,327	\$1,447	\$1,567
Peanuts 90 APH 2900 lbs	0	\$2,581	\$2,902	\$3,223	\$3,544	\$3,865	\$4,186
Highbush 90 APH 5000 lbs	0	\$37,875	\$42,713	\$47,550	\$52,387	\$57,225	\$62,062

Questions or Reactions



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