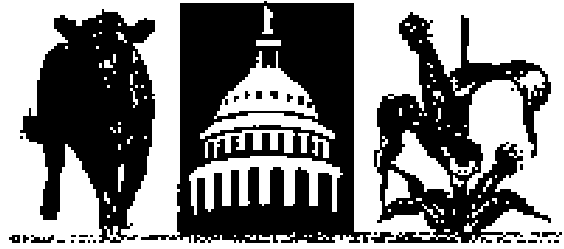


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In this issue:

- **A New Farm Bill Emerges, Finally!** – Will Snell
- **New Farm Bill Rural Development Title** – Alison Davis
- **Grain Market Update** – Kenny Burdine and Greg Halich
- **Sustainable Agriculture and Farmer Grant Opportunities** – Lee Meyer

A New Farm Bill Emerges, Finally!

After a lengthy debate, and several extensions, Congress has finally passed and sent to President Bush a \$300 billion, five-year farm bill. The bill, which is called the **Food, Conservation, and Energy Act of 2008 (H.R. 2419)**, had overwhelming support in the U.S. House (318-106) and in the U.S. Senate (81-15), with all the Kentucky delegation supporting the bill.

The President immediately vetoed the farm bill, as he had promised to, citing a long list of disagreements: budgetary costs, limited payment limitation reform, no change to trade-distorting subsidies, among other factors. The President has only vetoed nine bills passed by Congress during his almost eight years in the White House and Congress has only overridden one of those bills. The President continues to support a one-year extension of the 2002 Farm Bill.

But there was confusion about missing text in the actual bill the President vetoed. The clerk of the

House had inadvertently left out the Trade title in the farm bill, the section that included international food aid and a certification program for softwood lumber. The House has already passed a second, “complete” version of the farm bill but the Senate has only voted to override the veto of the original, defective copy sent to the White House.

At this moment, it appears that we have 14/15 of a new farm bill, lacking only the Senate vote on the Trade title to complete the package of legislation.

What’s in the new farm bill? Food assistance and nutrition programs, as is the case with all farm bills since 1973, accounts for 2/3 of the budgetary cost, while commodity title programs comprise less than 15% of the 2008 Farm Bill’s anticipated expenditures. This legislation does provide more funding for conservation and energy programs, along with paying more attention to specialty crops (i.e., fruits and vegetables).

In reality, the structure of this farm bill is not radically different from the 2002 Farm Bill, despite efforts by many reformers to significantly change the nation’s comprehensive farm legislation given the current budget environment and the strong ag economy.

A few specific highlights of this 673-page bill that have implications for Kentucky farmers include the following:

- Maintains the current safety net programs for farm bill crops consisting of direct payments, countercyclical payments and marketing loan benefits with some adjustments in loan rates and target prices beginning in 2010.

- Eliminates the three entity rule which allowed producers to increase program payments if they were farming multiple entities, and requires direct attribution of payments to individuals, not partnerships or corporations.

- Provides program crop producers with an optional state-level revenue-based countercyclical-program called the Average Crop Revenue Election (ACRE) beginning in crop year 2009 in exchange for a 20% reduction in direct payments and a 30% reduction in loan rates. The state-based ACRE provides producers with a payment for an eligible commodity when the actual state revenue for an eligible program commodity is less than 90% of a state revenue guarantee (which is based on a 5-year state average yield and a 2-year national average price).

- Denies direct payments to any producer whose average (previous three years) adjusted gross farm income exceeds \$750,000 annually, and eliminates all farm program payments to any individual with an average adjusted gross non-farm income exceeding \$500,000. A husband and a wife would be able to apply their own individual payment limits, effectively raising the commodity program limit for farming families to \$1.5 million annually. For conservation programs, payments would be eliminated for individuals whose adjusted gross income exceeds one million dollars, with those who receive more than 2/3 of their income from farming exempted from any conservation payment limits.

- Eliminates payments for any farm with less than 10 base acres, which would impact over 20,000 Kentucky farms (the highest number of farms impacted among all states in the nation).

- Establishes a permanent disaster program to allow for direct emergency assistance in response to weather-related events.

- Modifies the dairy price support program by directly supporting the price of dairy products, increases the payment rate on the Milk Income Loss Contract (MILC) program (whose payment would take into consideration the cost of feed), and extends the Dairy Export Incentives Program (DEIP).

- Increases conservation program spending by nearly \$8 billion. Authorizes 32 million acres to be enrolled in the Conservation Reserve Program (CRP) from 2010 -2012, compared to its current level of 39 million acres. Extends most other conservation programs with expanded funding of \$3.4 billion for the Environmental Quality Incentives Program (EQIP), and provides over \$1 billion in new funding for the revamped Conservation Security Program (CSP) to enroll nearly 13 million acres annually by structuring payments that encourage producers to implement more conservation practices.

- Increases funding for biofuels research and infrastructure, with increased emphasis on cellulosic and on-farm adoption of improved energy efficiency systems.

- Includes a new livestock title that implements mandatory country of origin (COOL) labeling for meats and produce, attempts to provide better protection for livestock producers entering contracts, and increases market access for small, state inspected meat processing plants.

- Improves programs for extending credit to beginning farmers and increases farm ownership and operating loan limits.

- Revises tax laws to allow race horses to be depreciated over three years.

- Prohibits closure or relocation of FSA offices for two years.

What impacts will the farm bill have on the Kentucky agricultural economy? Initially, given the current price environment for grains, the revised safety net provisions will have minimal effects on current planting decisions, government payments, and net farm income. The ACRE program is optional and will not begin until 2009. However, depending on the current price environment, ACRE could provide some interesting management decisions for grain producers. Very few Kentucky farms will be affected by the new payment limitations.

Tobacco buyout payments, which of course are not a component of the farm bill or funded by

taxpayers, will continue to comprise the bulk of government farm payments to Kentucky farms.

The expansion in conservations programs will likely provide more wide-spread benefits to Kentucky livestock and crop producers than other farm bill programs. Fruit and vegetable producers may be able to take advantage of programs designed to educate and promote locally grown specialty crops, including the growing organic food sector. Expanded nutrition programs and funding will be a benefit to low income consumers amidst increasing food prices and provide more access to fruits and vegetables in our schools.

Detailed fact sheets on individual farm bill titles can be accessed on the U.S. House Ag Committee Farm Bill website (www.agriculture.house.gov/inside/FarmBill.html) and the U.S. Senate Ag Committee Farm Bill conference website (www.agriculture.senate.gov/) (Will Snell)

New Farm Bill Rural Development Title

The USDA's rural development mission is to enhance rural communities by targeting financial and technical resources to areas of greatest need. They support rural development initiatives through guaranteed loans, direct loans, grants and through intermediaries. Rural communities depend on assistance from the USDA because they administer the greatest number of rural development programs and there are limited resources available outside of this administration.

That being said rural development professionals and rural communities have long been waiting for the 2008 Farm Bill to determine the programs and resources that will be available. As passed by Congress, this farm bill has allocated approximately \$150 million to the Rural Development Title. This allocation is disappointingly small for rural development advocates. However, it is still worthwhile to summarize the main programs that the Farm Bill supports.

New Programs

- \$120 million for critical water and wastewater projects in rural areas

- \$15 million for the value-Added Agricultural Product Market Development Grant program

- \$15 million for a new Rural Entrepreneur and Microenterprise Assistance Program that will provide technical and financial assistance to micro-enterprises and small businesses in rural areas with fewer than 10 employees.

Extensions of Previous Programs

- Addresses health care, emergency and first responder needs of rural areas
 - Improved emergency medical services in rural areas
 - Loans for improved 911 access
 - Grants for weather radio transmitters
- Connects Rural America
 - Improves access to broadband telecommunications with greater focus on rural areas
 - Focus broadband loans on underserved areas
- Attracting New Businesses
 - Extends Rural Business Opportunity Grants
 - Extends Rural Cooperative Development Grants
 - Extends the Agriculture Innovation Center Demonstration Program
 - Sets aside funds within the Business and Industry Program for loans for rural food enterprise entrepreneurs that process and distribute food locally
- Renews Critical Rural Infrastructure
 - Renews Water and Water Disposal Grants
 - Renews programs that provide vital infrastructure needs to underserved areas
 - Provides grants to non-profits for household water well systems in low-income areas

(Alison Davis)

Grain Market Update

Volatility in the grain markets continues as planting progress continues to lag. For the week ending May 18th, 73% of the corn crop was planted. This is in comparison to 88% historically. Wet planting conditions have been generally favorable to new crop corn price, but negative for soybeans. The May WASDE showed a projected stocks-to-use in corn of 10.6%, compared to 4.8% for soybeans

for the 2007/2008 marketing year which ends August 31st.

USDA also released its first take on the 2008/2009 balance sheet. Using the March 31 “Prospective Plantings” acreage numbers, combined with trend yields, USDA is projecting a slight increase in ending stocks for soybeans, but a sizeable decrease for corn. Current projections put 08/09 stocks-to-use for soybeans at 6% and corn down to 5.9%. Considering we are still planting the 2008 crops, these are clearly very preliminary numbers. But, these are very low carry over stocks meaning there is little room for production problems this summer, for either crop.

As grain producers look at their marketing options for the upcoming year, they may have some difficulty getting hedge-to-arrive contracts. We feel like supplies are tight enough that basis should improve compared to the 2008 crop year. So, producers should weigh “locking in” a weak basis through a cash forward contract versus potentially paying a penalty for an HTA and hoping for a more attractive basis later. As we’ve said before, avoid the temptation to “overprice” the 2008 crop; it’s early, and there is still a lot of production risk out there, so be realistic. (Kenny Burdine and Greg Halich)

Sustainable Agriculture and Farmer Grant Opportunities

Outside of our borders, Kentucky has a strong reputation for innovative sustainable agriculture programs and practices. Within the Commonwealth, there is often confusion about what sustainable agriculture is. The 1985 Farm Bill established a relatively long and official definition of sustainable agriculture, but it can be summarized as production systems which are profitable, good for the environment and enhance quality of life. While environmental stewardship is a core part of sustainable agriculture, it is clearly only one part of the definition. This may be different from the perception that many have.

Sustainable agriculture encompasses broad goals, and farmers develop specific strategies for achieving them. No single practice works in every

field, good soil management tools that work for Daviess county may be inappropriate for Rockcastle county. No single recipe works on every farm. There are thousands of ways to farm more sustainably, whether you are a cattle backgrounder or a cash grain operation. Using a great variety of farming strategies allows producers to meet their needs in their operations, their environment, and their community.

Farmers can choose many ways to improve their sustainability, and these vary from region to region and farm to farm. Many good farming practices, often aimed at greater use of on-farm or local resources, are key elements of sustainable agriculture. Examples are: integrated pest management (IPM), rotational grazing, soil conservation and conservation tillage, water quality/wetlands, cover crops, crop/landscape diversity, nutrient management, and alternative marketing. More detailed information about the elements of sustainability, along with 10 farmer profiles, can be found at: <http://www.sare.org/publications/explore/elements.htm>)

Clearly, sustainable agriculture is in everyone’s best interest, but making agriculture sustainable is a challenge as we are hit by rising input prices, drought, and rising land prices. While many of the solutions come from farmers’ innovations, farmers often need help in testing their ideas.

The USDA SARE (Sustainable Agriculture Research and Education) program has two competitive grant programs targeted for these producers. One is the **Producer Grant** program (up to \$10,000 for an individual, \$15,000 for an organization/group), and the other is the **On-Farm Research Grant Program** (up to \$15,000 for Extension, NRCS, and/or NGO personnel for work with farmers). For projects to be funded, they should be innovative, generate results that are useful beyond one year, and produce information that many farmers can use. Successful proposals involve cooperators (who could be other farmers, researchers, extension agents or specialists, governmental or nongovernmental organizations, or interested individuals who cooperate in project planning, data collection, or communication of project results); an outreach plan for providing other producers, researchers, and extension personnel

with an opportunity to learn from project results; and a clear articulation of goals. The deadline for the proposals is mid-November, and the call for proposals will be issued in September. All the details are at www.southernsare.org.

Each state land grant university has SARE designated representatives. In Kentucky, Dr. Marion Simon at Kentucky State University (marion.simon@kysu.edu) and I at UK (lee.meyer@uky.edu) serve these roles. We are glad to help agents and producers develop what we hope are winning proposals. Please contact us for assistance or answers to your questions about sustainable agriculture. (Lee Meyer)

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