
KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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2002 Farm Bill

Will Snell

The 2002 Farm Bill (officially titled the Farm Security and Rural Investment Act of 2002) was signed into law by President Bush on May 13, 2002. This bill replaces the 1996 Farm Bill, which was scheduled to expire on September 30, 2002. This new bill establishes our national farm legislation for the next six years.

The 2002 Farm Bill attempts to retain some of the features of the 1996 Farm Bill, such as planting flexibility (without production controls/set asides), marketing loans, and direct/decoupled payments, but at the same time institutionalize emergency payments. Currently, the Farm Service Agency (FSA) of USDA is working on specific regulations as it relates to the various components of the bill.

The 2002 Farm Bill is divided into 10 different titles: Commodities, Conservation, Trade, Nutrition, Credit, Rural Development, Research, Forestry, Energy, and Miscellaneous. A brief summary of various components of the commodity title of the 2002 Farm Bill follows. More details on the commodity and other titles of the Farm Bill can be accessed online at the following sites:

<http://www.usda.gov/farbill/>

<http://www.house.gov/agriculture/fbconfsum.pdf>

<http://www.agecon.ksu.edu/kfma/New%20Web/Farbill.htm>

Commodity Title Highlights

- The 2002 Farm Bill is structured around a three tier safety net consisting of **marketing loans**, fixed **direct payments**, and **counter-cyclical payments**.
- **Loan Rates** for 2002-2003 were increased for most crops, with the exception of soybeans. Loan rates for most commodities are scheduled to be reduced marginally for the 2004-2007 period (see table on following page).

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Table 1: Loan Rates, Direct Payments and Target Prices

Selected Crop	Loan Rates (\$/bushel)			Direct Payments (\$/bushel)	Target Prices (\$/bushels)	
	1996 Bill	2002-2003	2004-2007		2002-2003	2004-2007
Corn	\$1.89	\$1.98	\$1.95	\$0.28	\$2.60	\$2.63
Sorghum	\$1.71	\$1.98	\$1.95	\$0.35	\$2.54	\$2.57
Barley	\$1.65	\$1.88	\$1.85	\$0.24	\$2.21	\$2.24
Wheat	\$2.58	\$2.80	\$2.75	\$0.52	\$3.86	\$3.92
Soybeans	\$5.26	\$5.00	\$5.00	\$0.44	\$5.80	\$5.80

- Direct Payments**, introduced in the 1996 Farm Bill as production flexibility contract payments, will continue and be constant over a six year period (2002-2007). New direct payments are added for soybeans and other oilseeds. Producers have the option of retaining their current base acres (and add oilseed acres) or to update their base acres according to their 1998-2001 acres planted and prevented planted acres. Payment yields for direct payments will remain unchanged, with the exception of soybeans and other oilseeds which will be dependent on the farm's 1998-2001 yields (adjusted by other factors). Producers can elect to receive up to 50% of the direct, fixed payment beginning December 1st of the year prior to the year the crop is harvested, with the remaining balance in October of the year the crop is harvested.
- Counter-Cyclical Payments**, based on the relationship of market prices to specified target prices, will be reintroduced in the nation's farm policy. These payments will also be based upon program acreage levels and thus decoupled from current production levels. Specifically, the counter-cyclical payment rate is equal to the target price minus the "effective" price, where the "effective" price is equal to the sum of the higher of the market price or the loan rate and the direct payment rate. For example, using the table above for 2002-2003, a market price for corn of \$2.00/bushel would result in a counter-cyclical payment rate of 32 cents/bushel (i.e., \$2.60/bushel target price minus \$2.28 effective price (\$2.00/bushel market price + \$0.28/bushel direct payment)). The total payment amount will be equal the product of the payment rate, the payment acres and the payment yield. Similar to the direct payment, producers have the option of keeping their current program base acreage used under the 1996 Farm Bill or updating covered commodities to the average of planted and prevented planted acreage for the 1998-2001 crop years. Payment acreage will be based on 85% of base acres. Producers who update base acres may update yields for determining counter-cyclical payments only. Producers can elect to receive an advance of up to 35% of the "projected" payment in October of the year the crop is harvested, an additional 35% in the following February, and the remaining balance at the end of the 12 month marketing year. If the remaining balance is negative, producers will have to repay the difference.
- Tobacco**: Tobacco is usually not a part of the Farm Bill, and the 2002 Farm Bill is no exception. Previous income supplements to tobacco farmers (Tobacco Loss Assistance Payments (T-LAP)) were not part of the farm bill and are not included in the 2002 bill. However, of interest to tobacco farmers, are the dramatic modifications to the federal peanut program. Historically, the peanut program has been structured very similar to tobacco with production quotas, price supports, loan stocks, quota transfer restrictions, and no-net-cost assessments. However the 2002 Farm Bill contains a

buyout for peanut quota owners (\$0.11/lb for 5 years, based on 2001 quota), while providing marketing loans, along with direct and counter-cyclical payments to growers. While establishing a precedence of a buyout for a production control/price support program, funding for the peanut program buyout/grower payments evolves from taxpayer funds – something that is not likely to be a funding source for any type of potential tobacco program buyout.

Conservation

- The Conservation Reserve Program (CRP) is reauthorized in the 2002 Farm Bill and expands the acreage cap to 39.2 million acres, up from 36.4 million acres.
- The 2002 Farm Bill also reauthorizes the Wetland Reserve Program (WRP), Environmental Quality Incentives Program (EQIP), and the Wildlife Habitat Incentive Program (WHIP) with expanded coverage, while introducing a Grasslands Reserve Program (GRP), a Conservation Security Program (CSP) and a Water Conservation Program.
- For details on these conservation programs go to:
http://www.usda.gov/farmbill/conservation_fb.html.

Payment Limitations

In addition to individual annual payment limitations of \$40,000 for direct payments, \$65,000 for counter-cyclical payments, and \$75,000 for marketing loan benefits, the 2002 Farm Bill limits payments to individual producers whose adjusted gross income is greater than \$2.5 million, unless more than 75% of their adjusted gross income is from agriculture. The current three entity rule is maintained, which allows individual farmers to receive the full limit under one entity and half the limit under two additional entities, resulting in the maximum payment limitation for an individual program participant of \$360,000.

Benefits/Concerns

As with any piece of legislation, participants/analysts identify potential benefits and concerns.

Some of the beneficiaries of this farm bill include:

- Grain producers – continued flexibility in making planting decisions, along with price and income support amidst depressed commodity prices.
- Livestock producers – cost-share assistance related to environmental programs, startup funds for direct sales of beef, lamb, and other meats, potentially continued low-priced grain, and support among some livestock groups for county of origin labeling.
- Agribusinesses – price/income support for farmers, coupled with limited production control measures tends to benefit agribusiness sales.
- Environment – significant expansion in environmental/conservation programs and funding.
- Consumers – anticipated low commodity prices will constrain growth in food prices

Critics point out that the new farm bill:

- Increases spending approximately 70% over the next six years, with limited benefits to relatively small family farms.
- Provides incentives to overproduce, thus resulting in potentially lower market prices and higher government payments during a period of anticipated budget deficits.
- Cost estimates may potentially be based on “optimistic” export projections.
- Will continue to adversely affect producers relative to landowners by maintaining relatively high land values and farm rental payments.
- Potentially violates the funding levels agreed upon by the United States as part of the Uruguay Round Agreement on

Agriculture, which could reduce future U.S. agricultural safety net payments.



KFBM 2000 Beef Summary

Rick Costin

KFBM data indicates that beef producers in 2000 continued the trend started in the 90's of increasing net returns. Both the beef calves sold and calves backgrounded realized higher net returns or less loss on the average. Price received for the calves sold off the cow increased substantially from 1999 (\$9.43 per hundred weight). Price received for selling backgrounded cattle (retained at least 45 days) went up \$14.95 per hundredweight from 1999. Cattle prices received in 2000 were the highest prices received in the past ten years for backgrounded calves, and all but one of those years for the calves sold group.

Prices were not the only up trend in 2000. Total costs of production in calves sold realized a sizeable increase, \$24 per cow over the previous year and a \$33 per cow higher cost of production in 2000 over the five-year average. Beef calves backgrounded saw a slight reduction in 2000 from 1999 but realized a \$65 higher production cost per cow over the past five-year average.

Once again averages in both categories showed negative returns over all costs for 2000. The average farm showed a net return loss of \$75 per cow for the beef calves sold group while the backgrounded group lost \$120 per cow on the average. However the high-third group for both categories realized a small positive net return over all costs, \$1 per cow for the calves sold and \$9 per cow for the backgrounded calves.

Even during "high price years" average beef returns do not cover all costs. In general most KFBM beef farms have gross returns to cover out-of-pocket expenses (i.e., purchased feed and cash costs.) Thus, on a cash flow basis and in the short run beef farms are able to maintain. However in the long run, an enterprise should produce returns sufficient to cover the total costs of production and

have something left to reward the operator for his or her management and ability.

The value a farmer places on the homegrown feed and other non-cash costs will have a great bearing on whether he feels that his beef enterprise is making a profit. Most beef operations do cover their cash costs while only the more efficient top producers cover their total costs consistently. Unless there is income from some other source on the farm or off-farm, money must be provided for family living expenses as well as cash for repayment of principal on loans, replacement of current capital items and any farm improvements that must be made. Farms that consistently fail to cover all or most non-cash costs will have difficulty surviving in the long run.

Dairy Farmers Get Some Relief

Rush Midkiff

The new farm bill kept the permanent milk price support program at \$9.90 per cwt. The new farm bill also includes a national dairy counter-cyclical program. The program is retroactive to December 1, 2001 and will expire on September 30, 2005.

The national dairy counter-cyclical program will cost 1.3 billion dollars. Dairy producers will receive a payment when the price of class I fluid milk in Boston falls below \$16.94 per cwt. All dairy producers will receive 45% of the difference between the target price and the market price. The payments for December thru June will average \$.94 per cwt. of milk. No payments have been made yet.

All producers will receive a support payment but production above 2.4 million pounds of milk per year will not be covered. This is equivalent to the output of 135 to 140 cows.

Merger Update

Darwin Foley, Area Farm Management Specialist for the Louisville Area retired April 30, 2002. Prior to his retirement the University of Kentucky's Agricultural Economics Department chose not to fill his position. In doing this, the Louisville Farm Analysis Group, Inc. will dissolve and the Bluegrass Farm Analysis Group, Inc. will assume the counties of Shelby and Henry. Trimble, Oldham, Jefferson, Spencer and Bullitt counties will be incorporated into the Lincoln Trail Farm Analysis Group, Inc.

Welcome Interns!

The Kentucky Farm Business Analysis Group would like to welcome Ross Pruitt and Quentin Tyler as interns for the summer. Quentin, who will be with the Bluegrass Farm Analysis Group, Inc., is from Hopkinsville, KY and received a B.S. in Agricultural Economics with a minor in Business from the University of Kentucky in May of 2002. He will begin his pursuit of a M.S. in Agricultural Economics at the University of Kentucky in August of 2002. Ross, who is working with the Ohio Valley Farm Analysis Group Inc., is a senior at Western Kentucky University majoring in Agri-Business with a minor in Business Administration. Ross is from Madisonville, Kentucky. We look forward to working with Quentin and Ross this summer and we hope you all get the opportunity to meet them.

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Mark Your Calendars

The Summer Board Meeting will be held July 17th in Paducah.

The Art of Success

“There are no secrets of success. Success is doing the things you know you should do. Success is not doing the things you know you should not do.”

Suzy Martin, Editor
Ohio Valley Farm Analysis Association



Disabilities accommodated with prior notification