

Commodity Title of the Farm Security and Rural Investment Act of 2002

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Outline

1. The Safety Net—Overview
2. Marketing Assistance Loans
3. Direct Payments
4. Counter-Cyclical Payments

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The Safety Net—A Quick Overview

Three Parts:

- Marketing Assistance Loans
- Direct Payments
- Counter-cyclical payments

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The Safety Net—A Quick Overview, cont...

Interpretation:

- Marketing Assistance Loans provide downside price risk protection on loanable quality commodities; and there are some income-enhancement opportunities.
- Direct and Counter-cyclical Payments are income transfers to cropland with appropriate production history.

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The Safety Net—Overview cont...

Producer Agreements as a Condition of Provision of Benefits

- For all portions of the safety net:
 - Compliance with requirements wherein the producer shall agree during the crop year to comply with the applicable conservation requirement for highly erodible lands and comply with applicable wetlands protection requirements.

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The Safety Net—Overview cont...

- As a condition of the receipt of benefits under the provision of the safety net- the producers shall submit annual acreage reports with respect to all cropland on their farms.

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Marketing Assistance Loans

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Marketing Assistance Loans

- **Overview**
 - Marketing assistance loans and potential income enhancing benefits are coupled to **current production** and **current market prices**.
 - Underlying price support feature of the commodity title
 - Marketing assistance loans are nonrecourse loans

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National-Level Marketing Assistance Loan Rates

Commodity	1996 FAIR Act 2001 Rate	2002 FSRI Act	
		2002-2003	2004-2007
Corn (bu)	\$1.89	\$1.98	\$1.95
Barley (bu)	\$1.65	\$1.88	\$1.85
Oats (bu)	\$1.21	\$1.35	\$1.33
*Wheat (bu)	\$2.58	\$2.80	\$2.75
*Minor Oilseeds (cwt)	\$9.30	\$9.60	\$9.30
Sorghum (bu)	\$1.71	\$1.98	\$1.95
Soybeans (bu)	\$5.26	\$5.00	\$5.00
Upland cotton (bu)	\$0.52	\$0.52	\$0.52
Rice (cwt)	\$6.50	\$6.50	\$6.50
Peanuts (Ton)		\$355	\$355 ₉

Wheat Loan Rates

- Beginning with the 2002 crop year the base county loan rates for wheat were announced by class (See Handouts).
 - hard red spring (HRS)
 - hard red winter (HRW)
 - soft red winter (SRW)
 - soft white wheat (SWW)
 - durum (DUM)
- The hard white wheat (HWW) loan rate is equal to the HRW loan rate
- The durum wheat (DUM) loan rate is applicable for all subclasses of durum.

2003 National-Level Oilseed Loan Rates

Type of Oilseed	Loan Rate
Sunflower	\$0.0960
Flaxseed	\$0.0720
Canola	\$0.0978
Rapeseed	\$0.0976
Safflower Seed	\$0.1292
Mustard Seed	\$0.1019

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National-Level Marketing Assistance Loan Rates for Added Loan Commodities

Commodity	2002-2003	2004-2006
Small Chickpeas (cwt.)	\$ 7.56	\$7.43
Lentils (cwt.)	\$11.94	\$11.72
Dry Peas (cwt.)	\$ 6.33	\$ 6.22
Honey (lb.)	\$ 0.60	\$ 0.60
Graded Wool (lb.)	\$ 1.00	\$ 1.00
Nongraded Wool (lb.)	\$ 0.40	\$ 0.40
Mohair (lb.)	\$ 4.20	\$ 4.20

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Marketing Assistance Loan Mechanics

- Largely unchanged
- Potential Loan Deficiency Payment (LDP) is equal to the county loan rate minus the Posted County Price (PCP), for traditional loan commodities.
- There are some variations in the calculations for new loan commodities.

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Marketing Assistance Loan Mechanics

- Producer with **beneficial interest** in the commodity can request an LDP any day after harvesting crop. (A producer retains beneficial interest if all of the following remain with the producer: control of the commodity; risk of loss; and title to the commodity.)
 - Producer loses opportunity to take out a marketing assistance loan

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Marketing Assistance Loan Mechanics

- Producers with a loan grade commodity who take out an LDPs should assure themselves that the sum of LDP and cash price is greater than the loan rate.
- Producers with a below loan quality commodity can take the LDP and whatever they can get the the commodity

Or...

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Marketing Assistance Loan Mechanics

- Producer with beneficial interest in the commodity can take a marketing assistance loan for most commodities for duration of 9 months beyond the month of inception and receive county loan rate on eligible commodities.

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Marketing Assistance Loan Mechanics

- Repay before maturity at the lesser of loan rate plus interest or PCP

OR.....

- Loan can be repaid with interest at maturity

OR.....

- Loan can be held to maturity and commodity forfeited to government

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Marketing Assistance Loan Mechanics

- When the loan is paid at the PCP, the difference between the loan rate and the PCP's is considered a "Marketing Loan Gain".

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Marketing Assistance Loan Mechanics Summary

- There loans are often used for short-term cash flow
- There loans provide downside price risk in periods of relatively low commodity prices.
- The income enhancement mechanics are also triggered in periods of relatively low prices.

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Direct Payments

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Direct Payments

- **Overview**

- The payments are decoupled from *current production* and *current market prices*.
- The payments are generally available for *covered commodities*.
- *Covered commodities* include:
 - All of the commodities we have known as *program crops* and *contract commodities* under previous Acts plus peanuts, soybeans, and *other oilseed crops*.

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Direct Payment Rates

Commodity	1996 FAIR Act 2002 Payment	2002 FSRI Act 2002-2007
Corn (bu)	\$0.261	\$0.28
Barley (bu)	\$0.202	\$0.24
Oats (bu)	\$0.022	\$0.024
Wheat (bu)	\$0.461	\$0.52
Minor oilseeds (cwt)	---	\$0.80
Sorghum (bu)	\$0.314	\$0.35
Soybeans (bu)	---	\$0.44
Upland cotton (lb)	\$0.0572	\$0.0667
Rice (cwt)	\$2.05	\$2.35
Peanuts (ton)	---	\$36.00

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Direct Payment Base

- Payment base equal to 85 percent of acreage base

15% Not Paid	85% Paid
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Direct Payment Acreage Base

- Acreage eligible for 2002 PFC payment plus average eligible oilseed acreage for 1998-2001
 - Includes planted and prevented planted acres for oilseeds over all four years

OR...

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Direct Payment Acreage Base

- **Acreage base** determined by the **land owner**
 - Average acreage for all covered commodities for 1998-2001
 - Includes planted and prevented acres for each crop over all four years
 - This method is available to producers who have a PFC contract but wish to use average plantings rather than use PFC acres.
 - This method is also available to farms that previously had no base but produced covered commodities during the 1998-2001 period.

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Direct Payment Yield

- **Payment Yield** *fixed*
 - Program yields for traditional program commodities do not change; generally those yields are those applicable for the 1985 crop year
 - **Program yields for oilseeds** will be based on 1998-2001 average yields backed up to equivalent 1981-1985 yields
 - Sunflower yields multiplied by 80%
 - Flaxseed yields multiplied by 65%
 - Other oilseed yields multiplied by 78%
 - Program yields for “new” non-oilseed crops will be assigned by FSA

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Landowner Actions Will Be Needed

- *Landowners* will need to make acreage base decisions by **April 1, 2003**.
 - The acreage base decisions are a one-time set of decisions that prevail over the life of the *direct (and counter-cyclical) payment* program.
 - The acreage base decisions will have to be completed before the 2002 final payment can be made.
 - Remember that crop acreage bases and payment yields will have to be established for minor oilseeds if producers desire to obtain direct payments.

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Producer Actions Will Be Needed

- *Producers* with established crop acreage bases and payment yields may sign up for crop year 2002 and crop year 2003 direct payments through June 2, 2003.
 - Producers will have to sign up annually in subsequent years during announced signup periods to be eligible for direct payments.

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Summary

- Direct payments for covered commodities are decoupled from current production and current market prices.
- Land owners will have to make acreage base decisions on covered commodities. Their decisions prevail over the life of the program
- Acreage base and payment yields will have to be established for oilseed crops.
- Producers can signup for 2002 and 2003 direct payments through June 2, 2003.
- Annual signup will be required for direct (and counter-cyclical) payments.

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Counter-Cyclical Payments

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Counter-Cyclical Payments

- **Overview**

- The payments are decoupled from current production, but not from current national average prices.
- Target prices fixed for 2002-2003, increase for most commodities for 2004-2007.
- *Covered commodities* include all of the commodities known as *program crops* and *contract commodities* under previous Acts plus peanuts, soybeans, and other oilseed crops.

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Counter-Cyclical Payments

- **What is a counter cyclical payment?**

- On a per unit (of yield) basis, a counter-cyclical payment is:
 - Counter-Cyclical = Target Price – Effective Price Payment
 - Effective Price for a Commodity = Greater of Marketing Assistance National Loan Rate + Direct Payment Rate

OR...

- Marketing Year National Average Price + Direct Payment Rate

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Counter-Cyclical Target Prices

Commodity	1990 FACT Act Target Price	2002 FSRI Act Target Prices	
		2002-2003	2004-2007
Corn (bu)	\$2.75	\$2.60	\$2.63
Barley (bu)	\$2.36	\$2.21	\$2.24
Oats (bu)	\$1.45	\$1.40	\$1.44
Wheat (bu)	\$4.00	\$3.86	\$3.92
Minor Oilseeds (cwt)	---	\$9.80	\$10.10
Sorghum (bu)	\$2.61	\$2.54	\$2.57
Soybeans (bu)	---	\$5.80	\$5.80
Upland cotton (bu)	\$0.729	\$0.7240	\$0.7240
Rice (cwt)	\$10.71	\$10.50	\$10.50
Peanuts (Ton)	---	\$495.00	\$495.00

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Counter-Cyclical Payments

- Calculation of the maximum potential counter-cyclical payments:
- 2002-2003

$$\begin{aligned}
 \text{Wheat Max Pmt/Bu.} &= \text{Target Price} && - && (\text{Loan Rate} + \text{Direct Payment}) \\
 &= \$3.86 && - && (2.80 + 0.52) \\
 &= \$0.54
 \end{aligned}$$

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Maximum Possible Counter-Cyclical Payments with Marketing Year Prices At or Below Loan Rate

Commodity	Payments/Unit of Yield	
	2002-2003	2004-2007
Corn (bu)	\$0.34	\$0.40
Barley (bu)	\$0.09	\$0.15
Oats (bu)	\$0.026	\$0.086
Wheat (bu)	\$0.54	\$0.65
Minor Oilseeds (bu)	\$0.00	\$0.00
Sorghum (bu)	\$0.21	\$0.27
Soybeans (bu)	\$0.36	\$0.36
Upland Cotton (bu)	\$0.1373	\$0.1373
Rice (cwt)	\$1.65	\$1.65
Peanuts (Ton)	\$104.00	\$104.00

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Counter-Cyclical Payments

- Calculation of the minimum marketing year national average prices that result in no counter-cyclical payments:
- 2002-2003

Target Price — Direct Payment = Minimum National Marketing Year Price

\$3.86 — 0.52 = \$3.34

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Minimum National Average Prices That Result in No Counter-Cyclical Payments

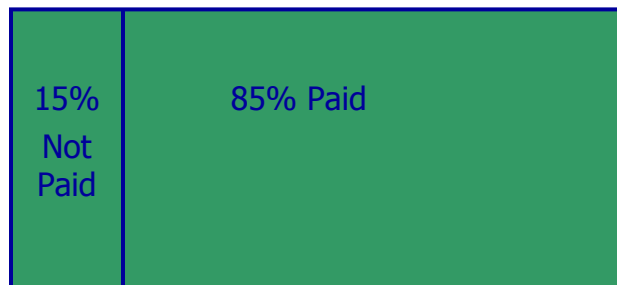
Commodity	Minimum Commodity Prices	
	2002-2003	2004-2007
Corn (bu)	\$2.32	\$2.35
Barley (bu)	\$1.97	\$2.00
Oats (bu)	\$1.376	\$1.416
Wheat (bu)	\$3.34	\$3.40
Minor Oilseeds (cwt)	\$9.00*	\$9.30*
Sorghum (bu)	\$2.19	\$2.22
Soybeans (bu)	\$5.36	\$5.36
Upland Cotton (bu)	\$0.6573	\$0.6573
Rice (cwt)	\$8.15	\$8.15
Peanuts (Ton)	\$459.00	\$459.00

* Loan rates equal or exceed these prices

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Counter-Cyclical Payment Base

- Payment acres equal to 85 percent of acreage base



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Counter-Cyclical Payment Base

- **Acreage base** determined by **land owner**
 - Existing acreage base (eligible for 2002 PFC payment) plus average eligible oilseed acreage for 1998-2001
 - Includes planted and prevented planted acres for oilseeds over all four years

OR...

- Average acreage for **all** covered commodities for 1998-2001
 - Includes planted and prevented planted acres for each crop over all four years

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Counter-Cyclical Payment Yields

- Yields determined by owner
 - Existing program yields (same as direct payments)
- Or, if all bases are updated using the 4-year averages**
 - Partially updated program yield using both existing program yields and 1998-2001 average yields
 - Updated yield = (average yield for 1998-2001 minus existing program yield) * 70% + existing program yield

OR...

- Partially updated program yield using 1998-2001 average yields
 - Updated yield = (average yield for 1998-2001) * 93.5%

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Landowner Actions Will Be Needed

- *Landowners* will need to make acreage base and yield decisions **by April 1, 2003**.
 - These decisions are a one-time set of decisions that prevail over the life of the *counter-cyclical payment* program.
 - These decisions will have to be completed before any 2002 counter-cyclical payment can be made if applicable.
 - Remember that crop acreage bases and payment yields will have to be established for minor oilseeds if producers desire to obtain counter-cyclical payments, when applicable.

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Producer Actions Will Be Needed

- *Producers* with established crop acreage bases and payment yields may sign up for crop year 2002 and crop year 2003 counter-cyclical payments through June 2, 2003.
 - Producers will have to sign up annually in subsequent years during announced signup periods to be eligible for counter-cyclical payments.

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Summary

- Counter-cyclical payments for covered commodities are decoupled from current production but not from current national average prices.
- Landowners will have to make acreage base and payment yield decisions for covered commodities which prevail over the life of the program.
- Acre base and payment yields will have to be established for oilseeds.
- Annual signup will be required for (direct) counter-cyclical payments.