Farmers Need Not Know Farm Bill Inside Out

By Allan Gray
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Spring heralds the start of a new crop season in more ways than one. For the first time in seven years farmers will be producing food and fiber under a new federal Farm Bill.

The 2002 Farm Bill is loaded with rules, stipulations and formulas, but farmers can rest easy—they don't need an encyclopedic knowledge of the legislation before planting.

What farmers do need to know is the government loan rate for qualified crops and the approaching deadline for updating base acres and program yields through the U.S. Department of Agriculture's Farm Service Agency (FSA).


Gray

This year many people have asked me, "How should I factor in the Farm Bill when I start making my planting decisions?" It's really pretty straightforward. The only one of three basic support mechanisms that should impact planting decisions is the loan rate, or the marketing loan program. This puts a base price on the crop and is paid based directly on what you produce.

Marketing loans allow farmers to receive government payments when the price of the harvested crop is below the loan rate. The loan amount equals the difference between the loan rate and the market price, multiplied by the amount of crop produced.

The other two support programs are direct payments and counter-cyclical payments (CCPs). Each is based on a farmer's historical production level, not what a producer chooses to plant this year.

Farmers should carefully consider loan rates and market prices as they decide which crops to plant, Gray said.

When we factor the net revenues from planting corn versus planting soybeans, we want to make sure we're using the higher of either the loan rate for our county or the market price. It's anticipated soybeans are likely to be below their loan rate for the 2003 crop. Nationally, that's $5 per bushel. With corn, the national loan rate is $1.98 a bushel, but we're anticipating prices to be higher than the loan rate.

CCPs provide additional support by making up the difference between a crop's market price per bushel and a target price set by the government. Farmers should not place great emphasis on CCPs when making planting decisions, although the support payment does provide additional protection when markets are volatile.

The counter-cyclical payment is a bit interesting, in the sense that it is tied to what the market price for the crop may be next season. To the extent that you plant the crop that you currently have in base, you can get a little bit better risk protection. If you plant corn based on your corn base for a particular farm, there can be a slight protection in revenues, because if prices begin to fall for corn you'll be losing market revenue, but your counter-cyclical payments will make up the difference in that loss in prices. Your revenue, then, is much less variable.

Farmers intending to participate in federal farm programs have until April 1 to select base acre and yield options at local FSA offices. The five options range from leaving base acres and yields unchanged to updating both. Each option affects a producer's support payment level.

Producers who miss the signup deadline automatically will be assigned Option No. 2, which adds soybean base acres to current base acreage. Soybeans are a full program crop in the '02 Farm Bill.

Some farmers might benefit more from Option No. 4—updating base acres using 1998-2001 historical planted acres and updating yields for CCPs. A Farm Bill spreadsheet calculator developed by Gray can help farmers determine which option might be best for them. The spreadsheet is available on Purdue's Farm Bill Web site and clicking on "Related Web Sites."

Having run nearly 2,500 different farms through our software, we've found that some farmers could leave a lot of money on the table if they don't choose Option 4, and instead take the default Option 2.

If you take the default option without signing up with the FSA you won't get the opportunity to prove soybean yields.

Your soybean payment yields could be quite low because you have to use 75 percent of the county average, and only 78 percent of that number can be used for payment yield.

INTERNET HOTLINKS

www.ces.purdue.edu/farmbill