Agricultural Marketing Policy Center

B R I E F I N G

Briefing No. 93 June 2008

Food, Conservation and Energy Act of 2008: Program Changes and New Initiatives

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Introduction

The Food, Conservation and Energy Act of 2008 (the Farm Bill) was passed in late May. While most of the changes in the new Farm Bill do not affect 2008 production decisions, several changes warrant discussion now as farmers/ranchers plan for the immediate future. This briefing paper therefore provides an overview of several important provisions and initiatives addressed in the 2008 Farm Bill. These include commodity programs, crop insurance and disaster aid, conservation, beginning and socially disadvantaged farmers/ ranchers and livestock.

Commodity Programs

The commodity title of the 2008 Farm Bill includes several changes that will affect producers starting in 2009. This bill establishes new loan rates and target prices existing for covered commodities beginning with the 2010 crop year and adds program coverage for certain pulse crops beginning with the 2009 crop year.

Base acres established under the Food, Security, and Rural Investment Act of 2002 (FSRIA) are retained with adjustments for both cropland released from the Conservation Reserve Program and new pulse crop base acres, or if the total base acres on a farm exceed the number of acres of cropland. Direct payments will be made on 85 percent of base acres in 2008 and 2012. In 2009, 2010, and 2011, direct payments will be made on 83.3 percent of base acres, resulting in a two percent reduction in a farm's total direct payments. Current payment yields are retained for direct and counter-cyclical payments. The new Farm Bill also establishes counter-cyclical payment yields for pulse crops. Counter-cyclical payments will be paid on 85 percent of base acres from 2008 to 2012.

	Loan Rate			Direct Payment	Target Price		
Montana Commodities	2008	2009	2010 - 2012	2008 - 2012	2008	2009	2010 - 2012
Wheat (bu)	$2.75	$2.75	$2.94	$0.52	$3.92	$3.92	$4.17
Barley (bu)	$1.85	$1.85	$1.95	$0.24	$2.24	$2.24	$2.63
Oats (bu)	$1.33	$1.33	$1.39	$0.02	$1.44	$1.44	$1.79
Corn (bu)	$1.95	$1.95	$1.95	$0.28	$2.63	$2.63	$2.63
Other oilseeds (cwt)	$9.30	$9.30	$10.09	$0.80	$10.10	$10.10	$12.68
Dry peas (cwt)	$6.22	$5.40	$5.40	n/a	n/a	$8.32	$8.32
Lentils (cwt)	$11.72	$11.28	$11.28	n/a	n/a	$12.81	$12.81
Small Chickpeas (cwt)	$7.43	$7.43	$7.43	n/a	n/a	$10.36	$10.36
Large Chickpeas (cwt)	n/a	$11.28	$11.28	n/a	n/a	$12.81	$12.81

Objective

Analysis

for Informed

Decision Making

Producers can elect to receive an advance direct payment equal to 22 percent of the **direct payment** following signup for the 2008 crop year, and as early as December 1 of the year prior to the year the crop is harvested for the 2009 through 2011 crop years. The balance of the direct payment will be made in October of the year the crop is harvested. Beginning with the 2012 crop year, advance direct payments will not be available.

A producer can receive a partial payment of up to 40 percent of projected counter-cyclical payments for the covered commodity after the first 180 days of the marketing year. Any balance of the counter-cyclical payments will be paid after the end of the marketing year for the crop. Beginning with the 2011 crop year, partial counter-cyclical payments will not be available.

In the 2009 crop year, producers will have the option of participating in a state-level revenue protection program, called ACRE, instead of the counter-cyclical program. Producers must agree to a 20 percent reduction in direct payments and a 30 percent reduction in loan rates on enrolled farms. In return, for each program crop, producers are eligible for a state-based revenue guarantee. The revenue guarantee is equal to 90 percent of the product of a state average yield per acre for the previous five years (after dropping the highest and lowest years) and the national average price for the previous two years for the commodity. If the actual state per-acre revenue is less than the guarantee and if a producer suffers an estimated actual revenue loss for the crop on the farm, then the producer will receive an ACRE payment equal to the difference between the state per-acre revenue guarantee and the state actual revenue calculation paid on 83.3 percent (85 percent for 2012) of the acres planted to the covered commodity on the farm. Farmers will be given a one time option to select the ACRE program in early 2009 and their choice is irrevocable for the duration of the 2008 Farm Bill (that is;, they will lock themselves in to the ACRE program for the 2009 to 2012 crop years).

Payment Limitations

Commodity program payments are subject to new limitations. Individuals or entities not actively involved in the farm will no longer be eligible for direct payments, counter-cyclical payments, ACRE payments, marketing loan gains, loan deficiency payments, MILC payments, and the Noninsured Crop Disaster Assistance program (NAP) if their Adjusted Gross Income (as reported on their federal 1040 tax form) exceeds $500,000. Individuals directly involved in farming with average Adjusted Gross Farm incomes in excess of $750,000 will no longer be eligible to receive direct payments. In addition, the three-entity rule has been eliminated. Under the 2008 Farm Bill, payments are directed to individuals, although a spouse directly involved in the farm operation is also eligible for separate payments. The current limits on direct payments of $40,000 and counter-cyclical payments of $65,000 remain for farms that do not opt to participate in the ACRE program but are reconfigured for ACRE program participants. Loan deficiency payments and marketing loan gains are not limited, but (as discussed above) are subject to the new income eligibility requirements.

Crop Insurance and Disaster Aid

The 2008 Farm Bill includes some changes to federal crop insurance programs (managed by the USDA Risk Management Agency) and the Non-Insured Crop Disaster Assistance program (managed by the USDA Farm Service Agency). In addition, a set of major new standing disaster aid programs has been introduced.

One important change in the federal crop insurance program is the increase in the administrative fee for catastrophic coverage from $100 per crop to $300 per crop. The administrative fees for the Non-Insured Crop Disaster Assistance (NAP) program will also be increased from $100 per crop to $250 per crop. Both changes will be implemented for the 2009 crop year. Other changes include adjustments in the way the area based Group Risk Plan (GRP) and Group Risk Income Protection (GRIP) insurance products are rated. In addition, the new Farm Bill requires RMA to set premiums to meet a targeted loss ratio (the ratio of indemnities paid to farmers to premiums paid by farmers) of 1 instead of 1.075. This means that, over time, RMA will be required to raise premium rates by about 7.5 percent for most insurance products.

The 2008 Farm Bill establishes a new Standing Disaster Aid Program, called the Supplemental Agricultural Disaster Relief Program. For crops, aid is provided when a county is designated as a disaster affected county and is a whole farm program; that is, a producer's disaster payment is based the payments the farm receives from all of its crops, from some other government programs (for example, direct payments), and from crop insurance indemnities. Each operation establishes a ***farm benchmark revenue*** from crops (based on its average yields and insurance yield and price coverage elections). The operation receives a payment if the farm's estimated actual revenues in the disaster year are lower than its benchmark revenues (equal to 60 percent of that difference). Farms and ranches with livestock operations will receive payments for livestock deaths resulting from the disaster that exceed normal mortality rates. The payment will equal to 75 percent of the estimated value of each lost animal. Livestock forage will also now have a standing disaster program. When a drought disaster occurs in a county (as indicated by the United

States Drought Monitor), livestock producers will automatically receive a disaster payment based on the county wide estimated average forage loss for the types of pasture and forage it uses.

In addition, the Farm Bill also establishes a standing disaster program for honey producers.

Conservation Programs

Conservation programs are generally continued and, in several cases expanded. However, while annually funding for the Conservation Reserve Program (CRP), the program in which farms and ranches place land in a conserving use instead of crop production, is maintained at $2.7 billion, the nationwide maximum area allowed to be enrolled in the program is to be reduced from about 38 million acres to 32 million acres, with the reduction to be achieved by 2010. The Conservation Stewardship Program (previously called the Conservation Security Program) is a working lands program in which farms and ranches are paid to adopt and/or practice conservation practices. The program is to be continued with an annual average funding increase of about $220 million and a goal of increasing enrollment in this program by about 1.2 million acres by 2012. Other environmental programs will also be expanded, including; the Wetlands Reserve Program (with the goal of enrolling an additional 3 million acres); the Environmental Quality Incentives Program (EQIP) program, with a 27.2 percent increase in funding; and the Grassland Reserve Program. These programs have special funding set-aside provisions for beginning and socially disadvantaged farmers/ranchers.

Beginning and Socially Disadvantaged Farmer/Ranch Initiatives

The 2008 Farm Bill provides several programs and initiatives to assist beginning and socially disadvantaged farmers/ranchers. It makes improvements to the down payment loan program; establishes a contract land sales program; and increases conservation program and direct and guaranteed loan fund set asides for beginning or socially disadvantaged farmers/ranchers. In addition, the Farm Bill increases farm ownership and operating loan limits.

Farm or ranch purchases combine the financial resources of the USDA, commercial lender and beginning or socially disadvantaged farmer/rancher. Adjustments to the down payment loan program are as follows: (1) The interest rate on the loan is the direct farm ownership loan rate less 4% with a floor of 1.5%, rather than the previous floor of 2%; (2) the down payment requirement is reduced from 10% to 5%; (3) the loan term is increased from 15 to 20 years; and, (4) the maximum purchase price is $500,000.

Beginning and social disadvantaged farmers/ranchers may also participate in a new loan and loan guarantee programs to finance qualifying conservation projects. The program increases the government's cost-share up to 90% and allows up to 30% of the cost-share funds to be advanced to purchase materials. All loan guarantees will be at the 75% level. Five percent of the funds in the Environmental Quality Incentives Program (EQIP) and Conservation Stewardship Program (CSP) have been set aside for beginning and social disadvantaged farmers/ranchers.

The bill complements the EQIP and CSP increased set-asides by reserving a higher percentage of loan funds for these producers to provide greater incentives for beginning farmers/ranchers. In the direct farm ownership loan program, the set aside has been increased from 70 to 75 percent. In the direct operating loan program, the set aside has been increased from 35 to 50 percent. In the guaranteed operating loan program, the set-aside has been increased from 25 to 40 percent. And finally, this bill increases direct ownership and operating loan limits, which have been unchanged for over two decades, from $200,000 to $300,000.

Livestock

The 2002 Farm Security and Rural Investment Act required country of origin labeling at the retail level for sale for beef, lamb, pork, fish, peanuts, fruits, and vegetables and subsequent legislation required implementation by September 30, 2008. The 2008 Farm Bill conference report clarifies multiple country commodity origination issues and adds chicken, goat meat, macadamia nuts, ginseng, and pecans that must be country of origin labeled.