

Economic Issues in Agriculture

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“Thoughts on ...”

The Farm Security and Rural Investment Act of 2002

(2002 through 2007)

The president signed the 2002 farm bill into law – despite getting little of what the administration wanted. As one observer said, *“This is an election year and most everyone associated with the bill is claiming some degree of credit for its’ passage.*

Projected cost of the six-year bill is \$110 billion to \$115 billion.

But reports touting a 70% increase in agricultural spending are a bit misleading. The level of spending under the bill is comparable to recent years after annual emergency appropriations are included in the calculations.

But the projected annual spending is uncomfortably close to the \$19 billion annual limits on U.S. subsidies allowed by the World Trade Organization. And our trading partners say this is in conflict with the U.S. push during trade talks to cut farm supports abroad.

Three Major Income Support Provisions for Major Commodities –

I. Direct Payments (or Fixed Decoupled Payments) established with the 1996 law will continue. These payments are based on historical acreages and yields regardless of current production. The major change is that soybeans and minor oilseeds will be eligible for direct payments with the 2002 crop.

The new law reduces the advance on direct payments for 2003 crops to 50% and delays the advances to December 1 as opposed to the 100% advances that were previously available in October. The remaining 50% will be disbursed after October 1 in the year of harvest.

Payments already advanced for the 2002 crop under the 1996 law will be deducted from direct payments for 2002 under the new law.

II. Counter Cyclical Payments are based on the target price concept. When the 12-month average market price for a crop year is below the target price, enrolled producers will be eligible for these payments.

These payments will be the target price, minus the higher of the loan rate or the market price, minus the amount of any direct payment. They will replace the supplemental AMTA payments of the past few years (emergency appropriations). Base acreages for these payments will be the same as for direct payments.

Counter-cyclical payments will be made in three installments.

First -- If market prices are expected to average below the target, the secretary can make advance payments equal to a maximum of 35% of the projected total counter cyclical payment in October of the year of harvest.

Then – A second payment can be made after February 1 of the following year equal to another 35% of

the projected total payment

Finally – The remainder of the payment (**if there is one**) will be made after the close of the marketing year.

III. Marketing Loans are generally unchanged from the 1996 law. Producers who forgo the loan will receive loan deficiency payments (LDPs) when posted county prices are below the CCC loan rate in their county.

Loan rates provide income based on current production when market prices are depressed in contrast to other payments (direct & counter cyclical) that are determined by historical production levels.

Base Acres and Yields...

... can be updated. The new base will be determined by the average annual actual planted and considered planted crop acreage from 1998 through 2001. Under this option, all crop acreage bases for the farm must be updated.

The alternative is to maintain current base acreages and add the average oilseed crop acreage planted from 1998 to 2001. With this alternative, the total crop acreage base cannot exceed the total crop acreage on the farm (with double crop exception). If the full oilseed base is maintained, the participant can choose which of the remaining base acreages to reduce.

Georgia Peanut Producers and Quota Holders...

...Will grow peanuts without a quota - which is being ended. Quota owners are being offered 11-cents per pound annually over a period of five years for the quota – or they can elect to receive it all in one year.

With the elimination of the quota, a base will established and assigned to the historical peanut producer who has until March 31, 2003 to assign this base to land.

Peanuts grown under the base will be eligible for a \$495/ ton target price, a loan rate of \$355/ ton, and the fixed payment rate of \$36/ ton. Counter cyclical payments will apply when peanut prices are below \$495 per ton. Payments associated with peanuts will have a payment limitation separate from other program payments.

Does This Mean...

...that higher subsidies are here to stay? The guess here - they are – until commodity prices, exports and the world economy recover. Supports have helped keep the entire agricultural industry afloat— farm banks, farmland values, plus machinery, chemicals and other support industries.

This will help with longer-term planning decisions. The assurance of a few years of government payments may make farmland buyers bid more aggressively – while potential sellers may be content to hold onto their land for a while longer. And land rent will likely stay strong.

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