Proposals for the 2008 Farm Bill

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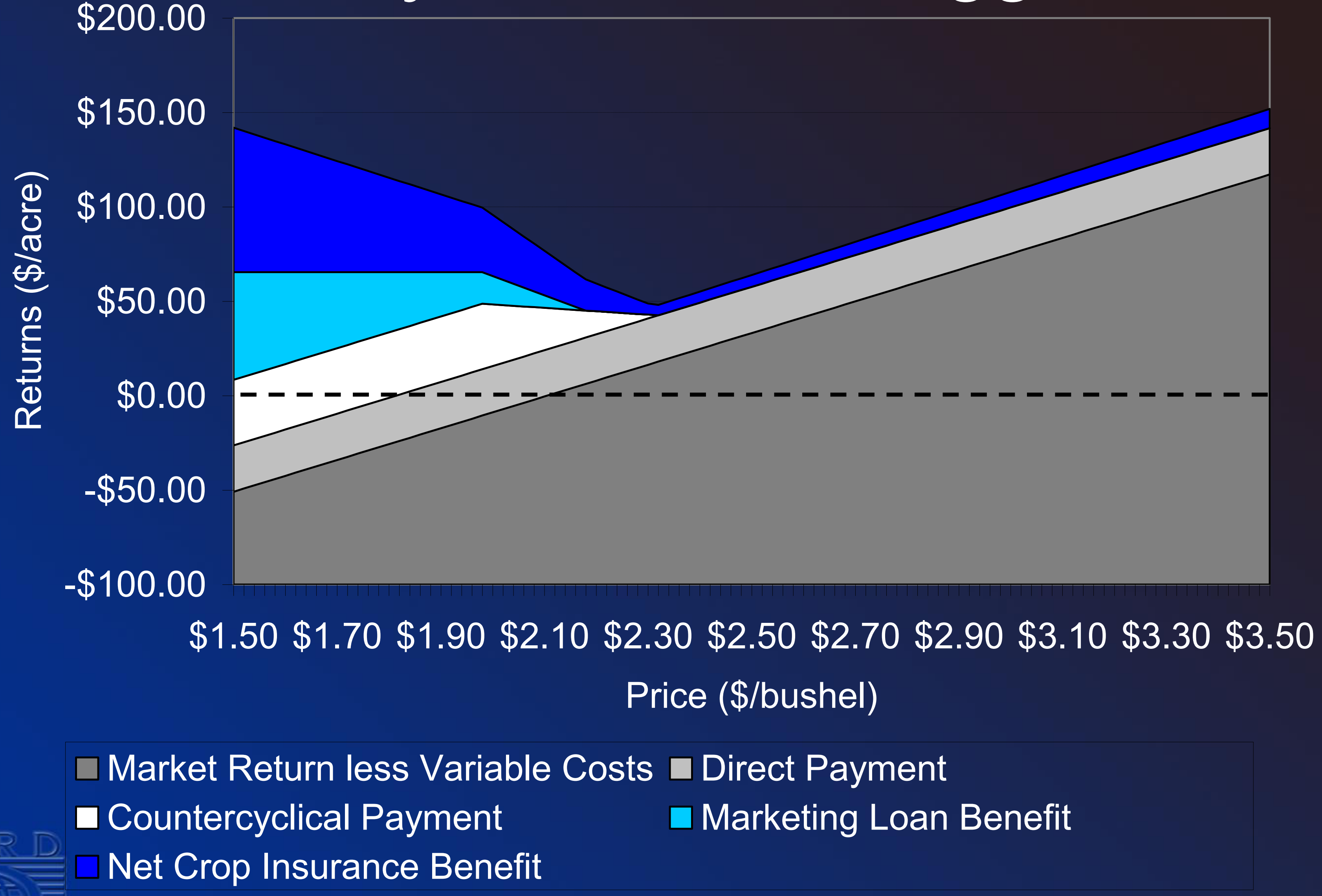
Current Farm Support

- Three main programs
  - Direct Payment Program
  - Counter-cyclical Payment Program
  - Marketing Loan Program
- Direct payments are fixed; counter-cyclical and marketing loan payments vary with price

Key Settings

Crop	Target Price ($/bu.)	Direct Payment Rate ($/bu.)	National Loan Rate ($/bu.)
Corn	2.63	0.28	1.95
Soybeans	5.80	0.44	5.00
Wheat	3.92	0.52	2.75

When Payments Are Triggered



Farm Bill Timing

- Debate will pick up this spring
- Farm bill will likely be passed and signed this summer
- Both Ag. Committee chairmen (Harkin, Peterson) have stated they will pass a new farm bill, not an extension

Farm Bill Budget

- Budget determined by Congress, but based on projections of spending for current farm bill
- With crop prices projected to remain high, current farm support program cost are projected to be low
- This doesn't leave much room for farm bill changes

Farm Bill Proposals

- There are many proposals out there
  - USDA
  - National Corn Growers Association
  - American Soybean Association
  - National Association of Wheat Growers
  - American Farmland Trust

- Can be divided into two camps
  - Modify current structure
  - Move to revenue-based farm support

Wheat Proposal

- Higher target price
  - Wheat: $5.29/bu., up $1.37
- Higher direct payment rate
  - Wheat: $1.19/bu., up $0.67
- No change on loan rate
- No specifics on other crops

Wheat Proposal

- Proposal would more than double direct payments
- Counter-cyclical payments would trigger at prices below $4.10/bu.
  - Currently triggered at $3.40/bu.
- Counter-cyclical payment rate would max at $1.35/bu.
  - Current max of $0.65/bu.

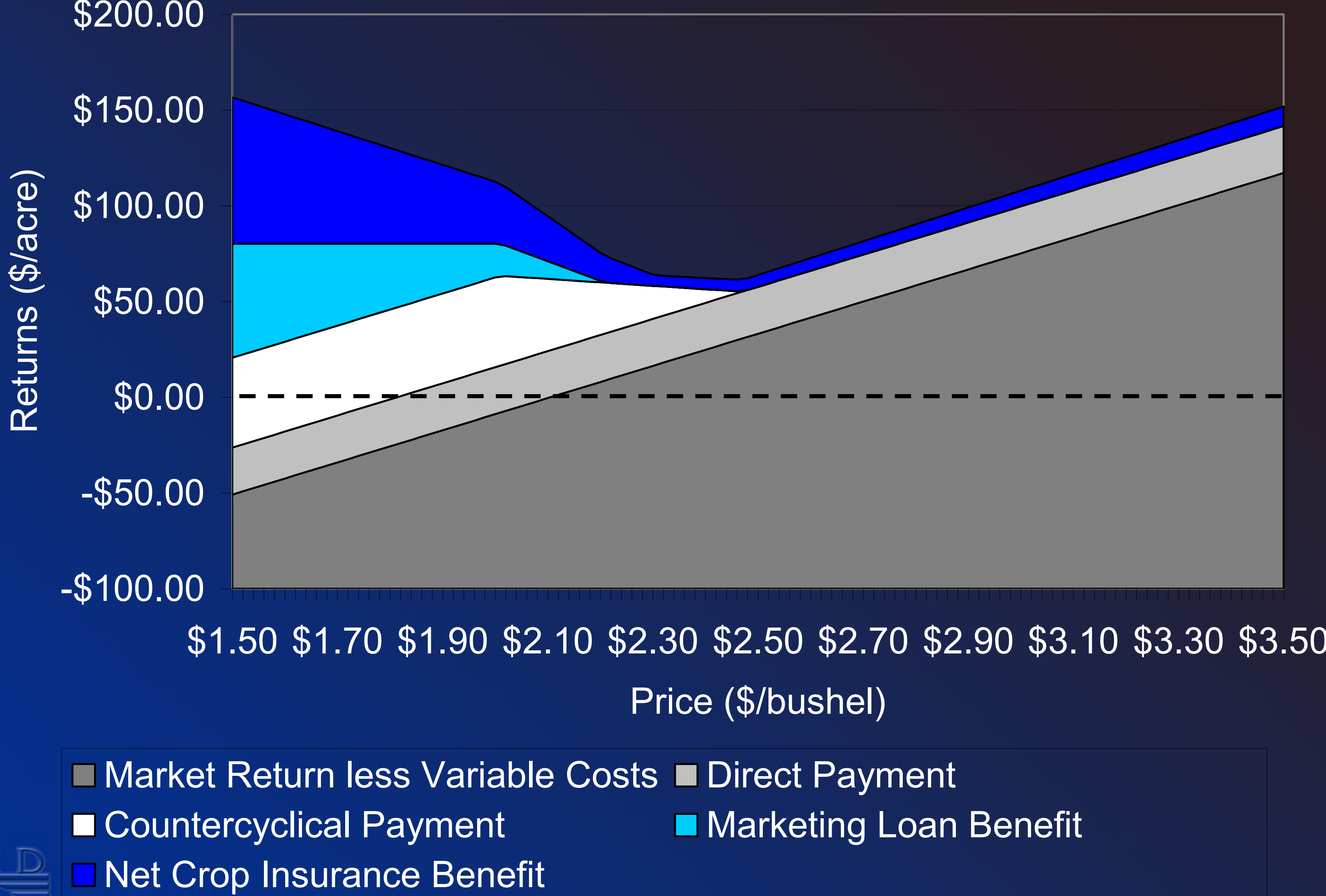
Soybean Proposal

- Higher target prices
  - Higher of current target price or 130% of 2000-2004 Olympic average of season-average prices
- Higher loan rates
  - Higher of current loan rate or 95% of 2000-2004 Olympic average of season-average prices
- No change on direct payments

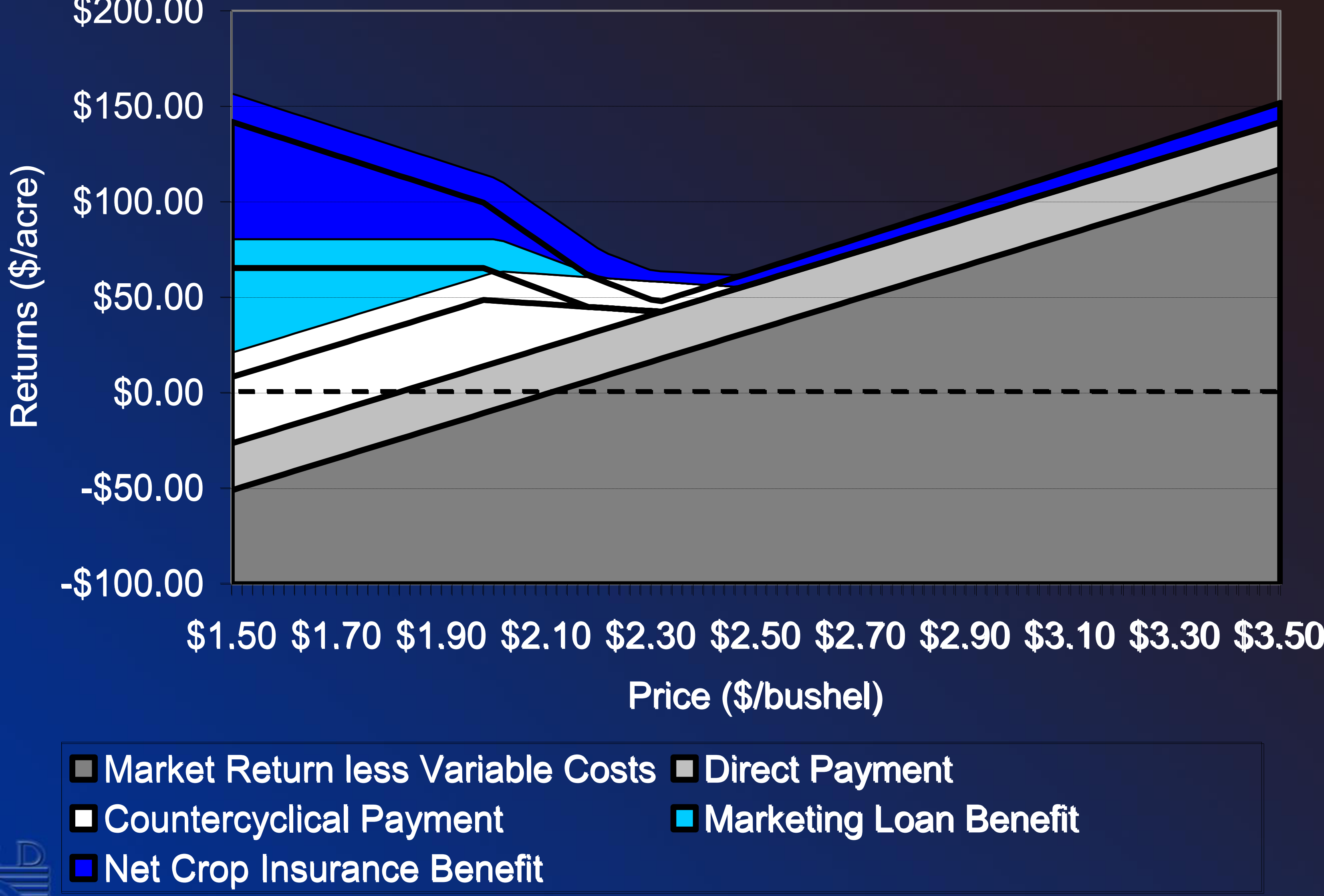
Soybean Proposal

Crop	Target Price ($/bu.)	Direct Payment Rate ($/bu.)	National Loan Rate ($/bu.)
Corn	2.75	0.28	2.01
Soybeans	6.85	0.44	5.01
Wheat	4.15	0.52	3.03

Payments under Soybean Proposal



Payment Changes



Corn Proposal

- Two revenue-based support programs
  - One farm-level (Base Revenue Protection)
  - One county-level (Revenue Counter-Cyclical Program)
- Marketing loans changed to recourse loans (means farmers could not forfeit crop as payment for loan)
- No change on direct payments

Base Revenue Protection

- Somewhat like crop insurance
- Revenue guarantee = 70% of 5-year Olympic average of farm-level crop-specific net revenue
- Net revenue = Harvested bushels*National price – Variable costs of production
- National price = USDA price over the 1st seven months of the marketing year
- Variable costs of production from regional USDA estimates
- Payments triggered if current net revenue is below revenue guarantee

Revenue Counter-Cyclical Program

- Somewhat like current counter-cyclical program
- Revenue guarantee = County trend yield*Target price
- Actual county revenue = County yield*National price
- Payments made when actual county revenue is below revenue guarantee
- Maximum payment = 30% of revenue guarantee

Why Switch to Revenue?

- Critics of the current farm bill point to two main factors
  - Continuing need for disaster assistance
  - Possible overcompensation from price-based programs
    - Example: 2004 for corn, record corn yields, 3rd highest corn crop value, large corn government payments

- Targeting revenue, instead of price, can address these factors

USDA Proposal

- Set loan rate at minimum of loan rates in House-passed version of 2002 farm bill or 85% of 5-year Olympic average prices
- Change marketing loan program from daily price settings to monthly price settings
- Increase direct payment rates
- Change counter-cyclical program to be revenue-based

USDA Proposal

Crop	Target Price ($/bu.)	Direct Payment Rate ($/bu.)	Max. Nat. Loan Rate ($/bu.)
Corn	2.63	0.30	1.89
Soybeans	5.80	0.50	4.92
Wheat	3.92	0.56	2.58

USDA's Revenue Counter-Cyclical Program

- Revenue guarantee = 2002-2006 National Olympic average yield*Effective target price
  - Effective target price = Target price – Direct payment rate
- Actual revenue = National yield*Max(Season-average price, National loan rate)
- Payments made when actual revenue is below revenue guarantee
- Pays on base acres and yields, not planted acres and actual yields

Corn Example

- 2002-2006 National Olympic average yield = 146.4 bu./acre
- Effective target price = $2.35/bu.
- Target revenue = $344.04/acre

- National yield = 130 bu./acre
- Season-average price = $2.30/bu.
- Actual revenue = $299.00/acre

- Farm program yield = 114.3 bu./acre

- Current program payment = $0.05/bu.
  - ($2.35 - $2.30)
- Proposed program payment = $0.394/bu.
  - (($344.04 - $299.00)/114.3)

The Next Farm Bill?

- May look like some of these proposals
  - As time proceeds, the odds increase for packages that look like the wheat and soybean proposals
- Congress usually blazes its own trail
  - USDA proposals do not carry significant weight in Congress
- Cost will be a major consideration