Corn and Soybean Issues for 2006

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Three Topics

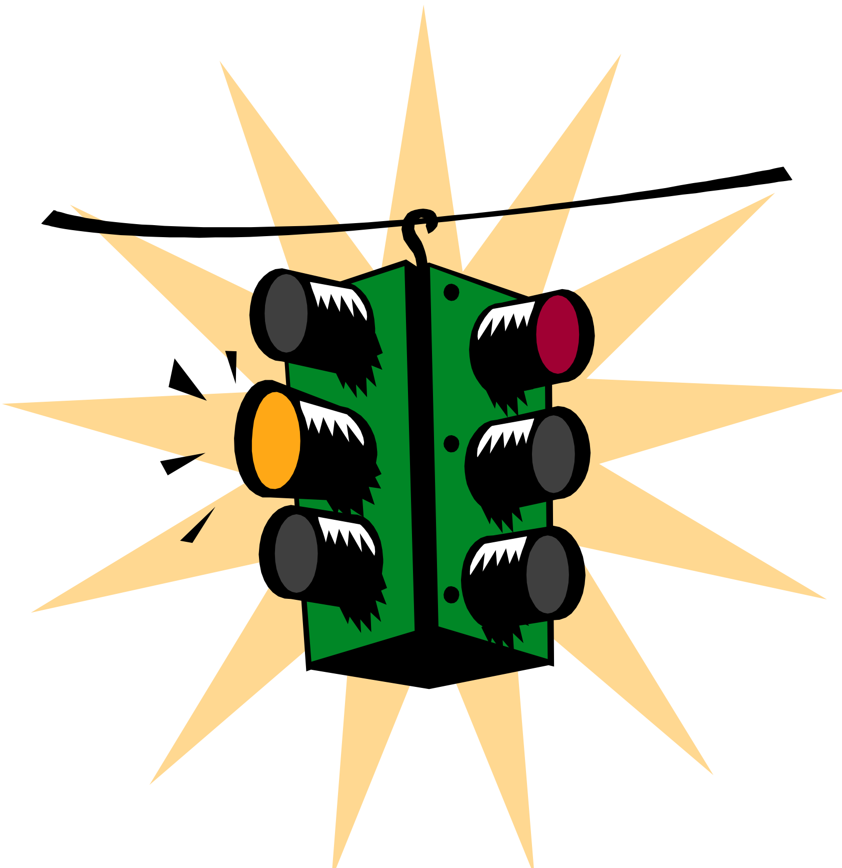
- World trade talks
- The 2007 farm bill
- Crop insurance

Outline of a Grand WTO Deal

- U.S. gives up some domestic subsidies in exchange for increased market access and a drop in domestic subsidies in the EU

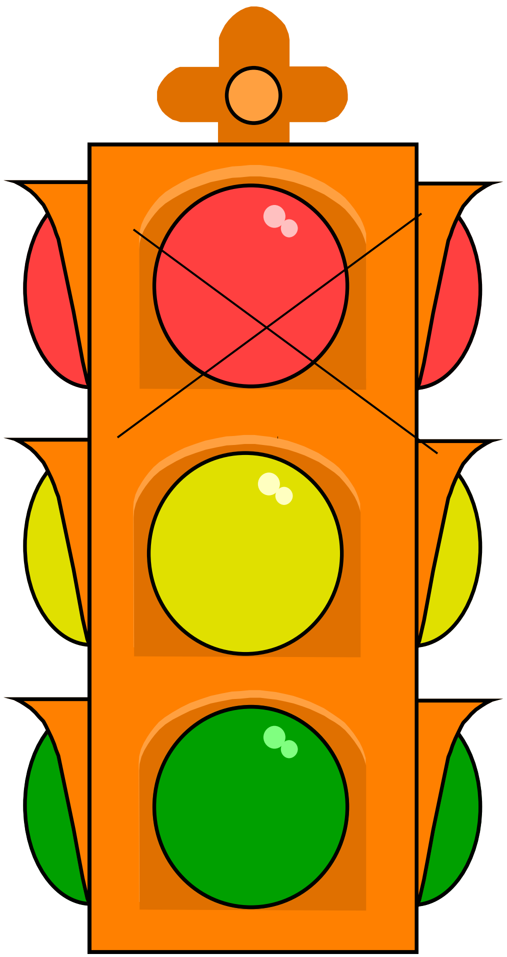
- U.S. proposal would require changes in current program support levels

"Traffic Light" Analogy



- Red Light -- "Stop" Subsidizing
- **Amber Light -- "Slow Down" Subsidies**
- **Green Light -- "Go" on as Before**
- **Blue Light – "Loophole" to obtain an agreement**

Uruguay Round Agreement: "Traffic Light" turns into "Boxes"



- No **Red Light supports**.
- Amber Box contains controlled supports.
- Green box remains.
- U.S. & EU create a Blue Box.

The Current Agreement:

Limits on Amber Box payments

No limits on Green Box payments

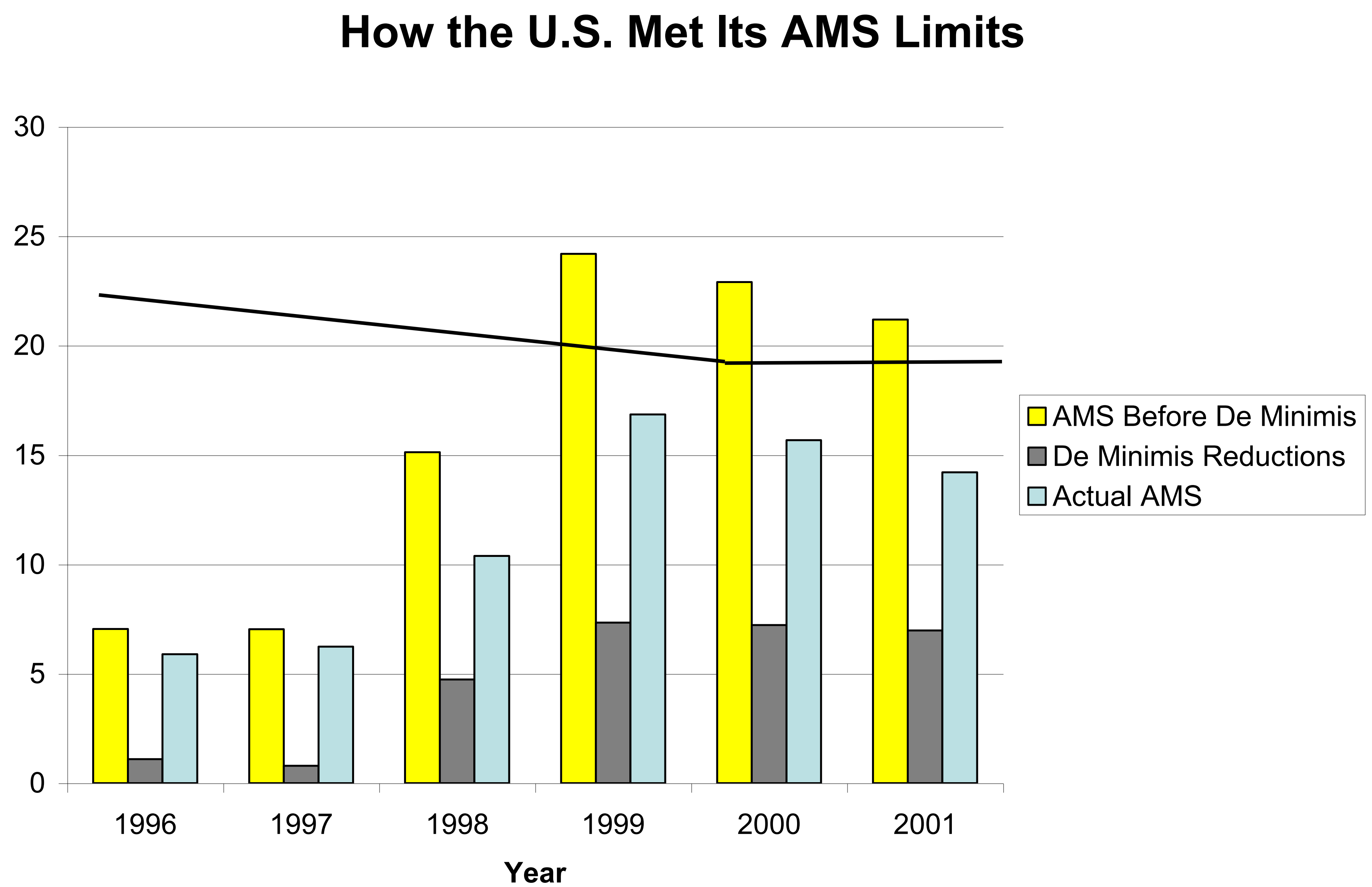
No limits on Blue Box payments

Requirements to be "Green"

Payments may not be related to **current prices**.

Payments may not be related to **current production**.

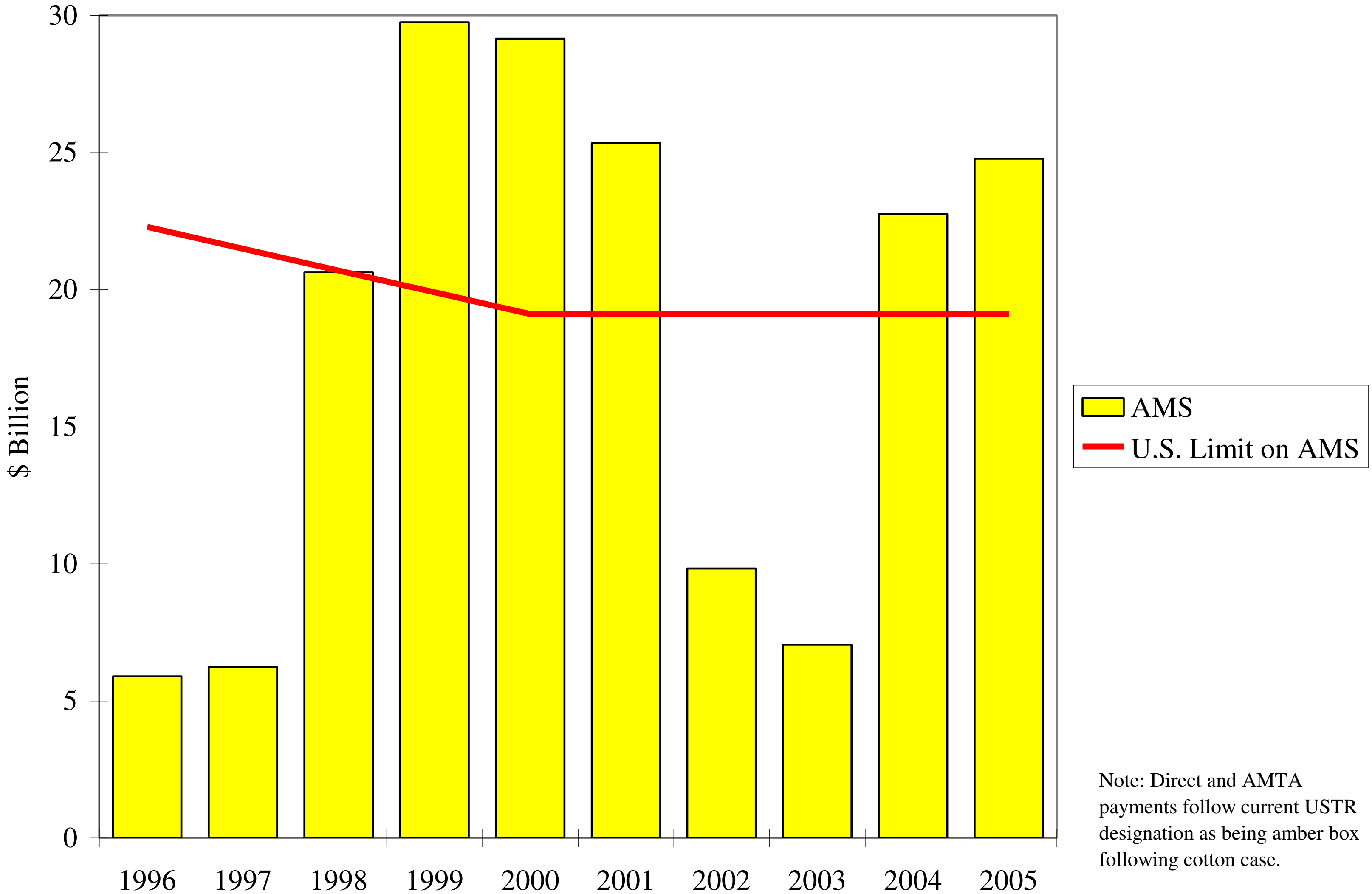
Recipients cannot be required to produce anything to receive a payment.


How the U.S. Met Its AMS Limits
30
25
20
15
10
5
0
1996
1997
1998
1999
2000
2001
Year
AMS Before De Minimis
De Minimis Reductions
Actual AMS

Cotton Ruling Upsets US Compliance

- Brazil brought a complaint about US cotton subsidies to the WTO panel.
- WTO panel ruled that cotton spending exceeded allowable levels and that Brazilian cotton producers were harmed by U.S. subsidies
  - Export subsidies (step 2) should be immediately ended
  - LDPs lowered world prices, causing harm to Brazilian cotton farmers
  - AMTA and DPs “do not fully conform” to Green Box guidelines because of restrictions on fruit and vegetable production

Expenditures on Current Safety Net



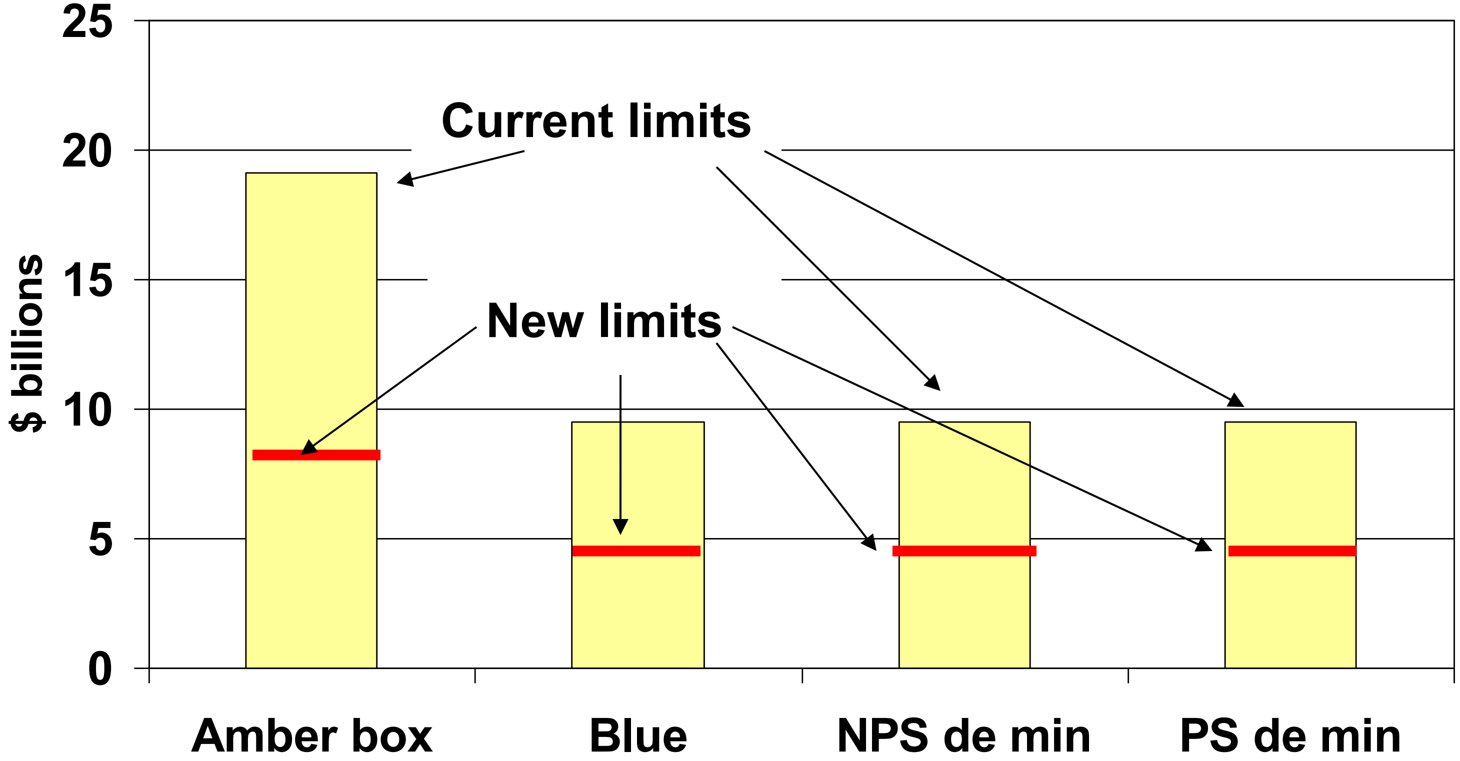
Note: Direct and AMTA payments follow current USTR designation as being amber box following cotton case.

U.S. WTO Proposal

Source: USDA

- Amber box: Limit cut by 60% over 5 years
- Blue box: Cap at 2.5% of base period value of production
-
- Loopholes: Cut by 50%, from 5% to 2.5% of current value of production
- Green box: no substantial changes, no cap

Illustration of U.S. Proposal



Impact of U.S. Proposal

	Current	New	Change	
Corn			absolute	percent
Loan rate	1.95	1.74	-0.21	-11.00%
Target price	2.63	2.45	-0.18	-7.00%
Soybeans				
Loan rate	5.00	4.45	-0.55	-11.00%
Target price	5.80	5.39	-0.41	-7.00%
Wheat				
Loan rate	2.75	2.45	-0.3	-11.00%
Target price	3.92	3.65	-0.27	-7.00%
Cotton				
Loan rate	52.00	46.28	-5.72	-11.00%
Target price	72.40	67.33	-5.07	-7.00%
Rice				
Loan rate	6.50	5.79	-0.72	-11.00%
Target price	10.50	9.77	-0.73	-7.00%
Raw sugar loan ($/lb)	18.00	15.12	-2.88	-16.00%
Milk support price ($/cwt)	9.90	8.81	-1.09	-11.00%
Sugar non-NAFTA TRQ (mmt)	1,229	1,984	755	61.50%

Impact on Corn Income

	Baseline	Change from Baseline		
		Unilateral	Multilateral	
	$/acre	No compensation	No compensation	Compensated
Market Gross Returns	373.18	0%	4%	4%
Marketing Loan Gains	12.63	-76%	-86%	-85%
Counter-cyclical Payment	13.80	-53%	-67%	-67%
Direct Payment	24.37	0%	0%	66%
Gross Returns with Payment	423.97	-4%	-1%	2%
Net Returns with Payment	241.70	-6%	-2%	4%

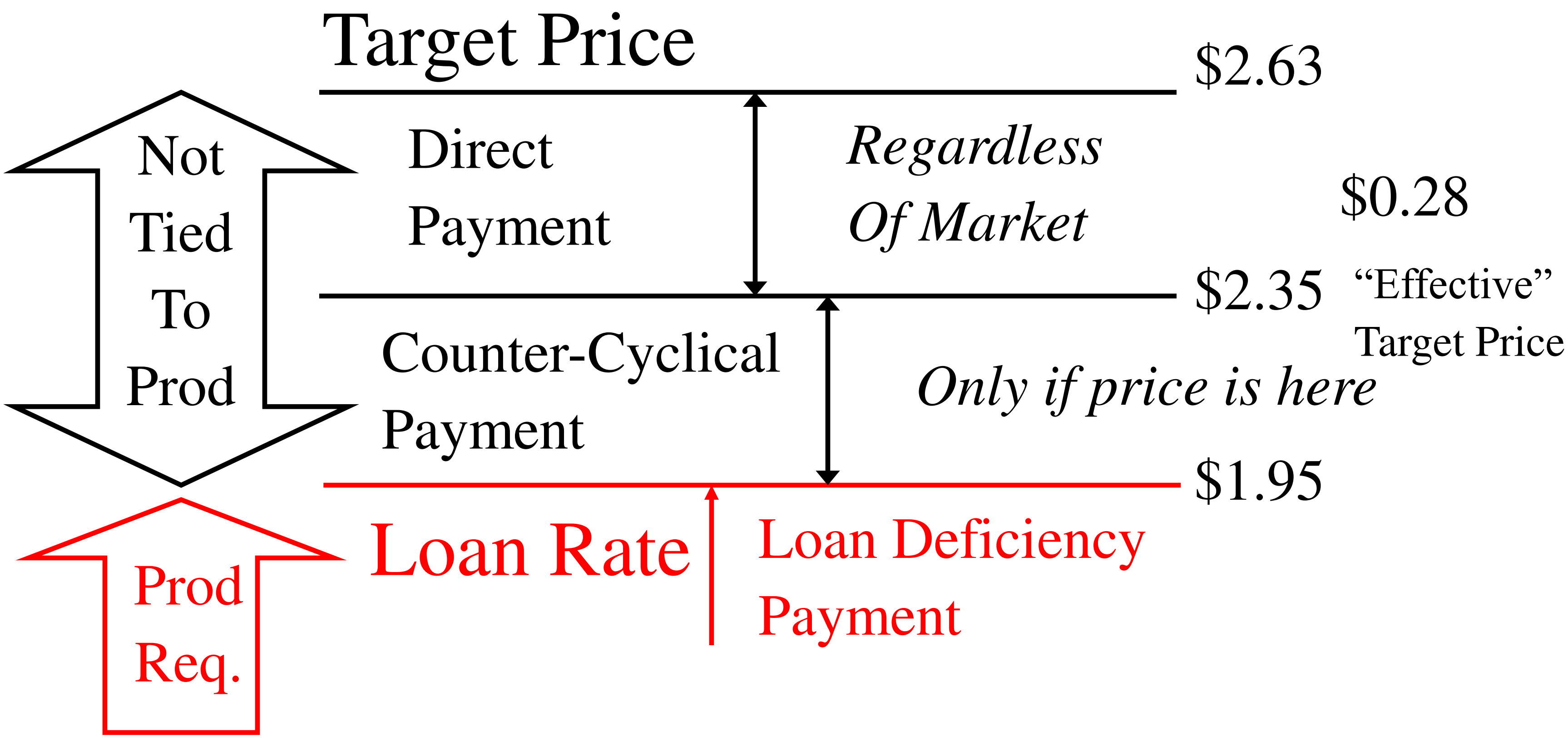
Winners and Losers from Trade Liberalization

- Livestock producers would fare the best under a new WTO agreement
  - They face the largest trade barriers
- Corn, soybeans and wheat would lose from lost subsidies but win from higher prices
- Cotton and sugar would lose

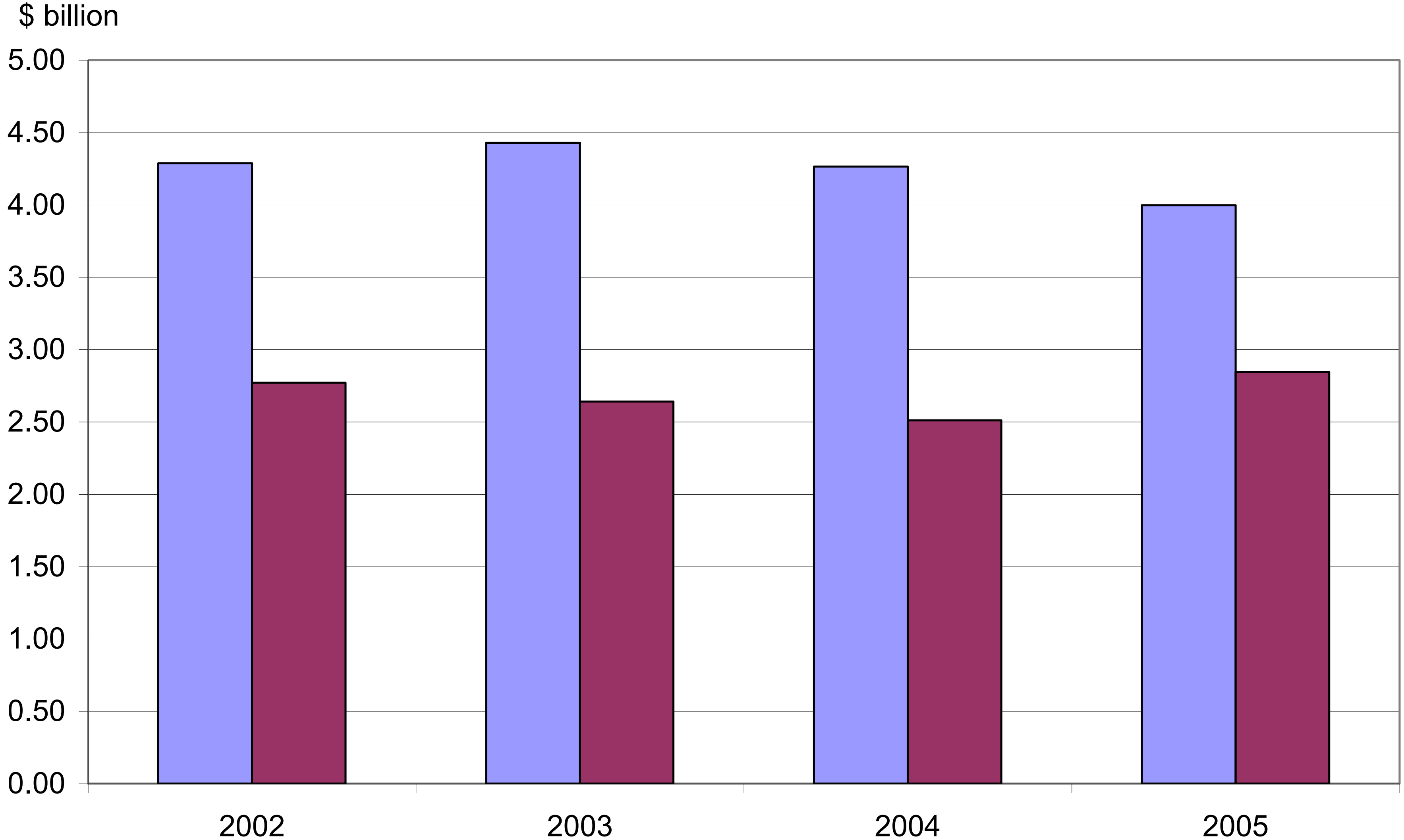
To Summarize

- Budget cuts or WTO agreements will mean change in US farm policy
- Choice could face agriculture:
  - Keep same programs with lower support prices but perhaps expanded direct payments?
  - Opt for new programs?

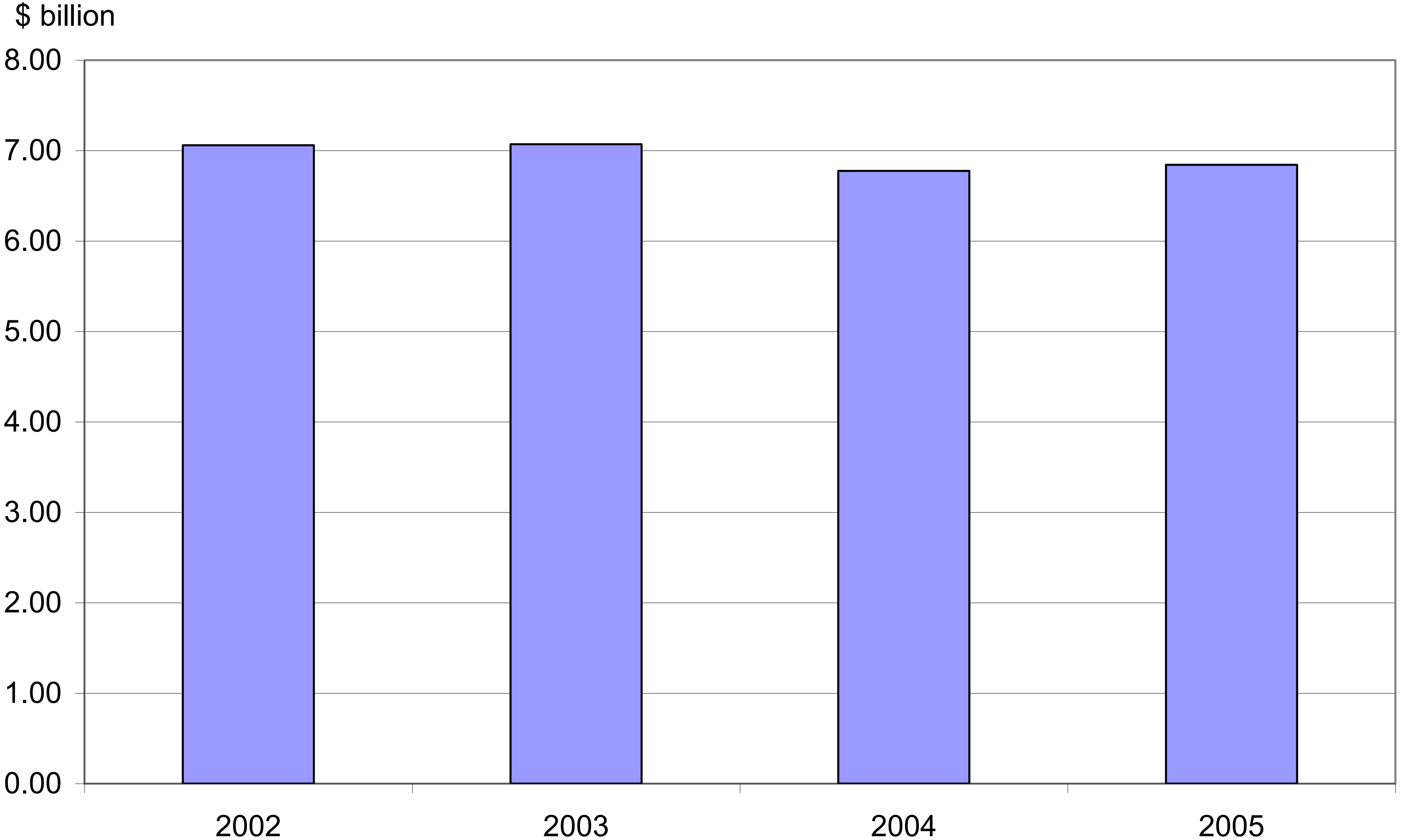
Structure of Program Payments for Corn



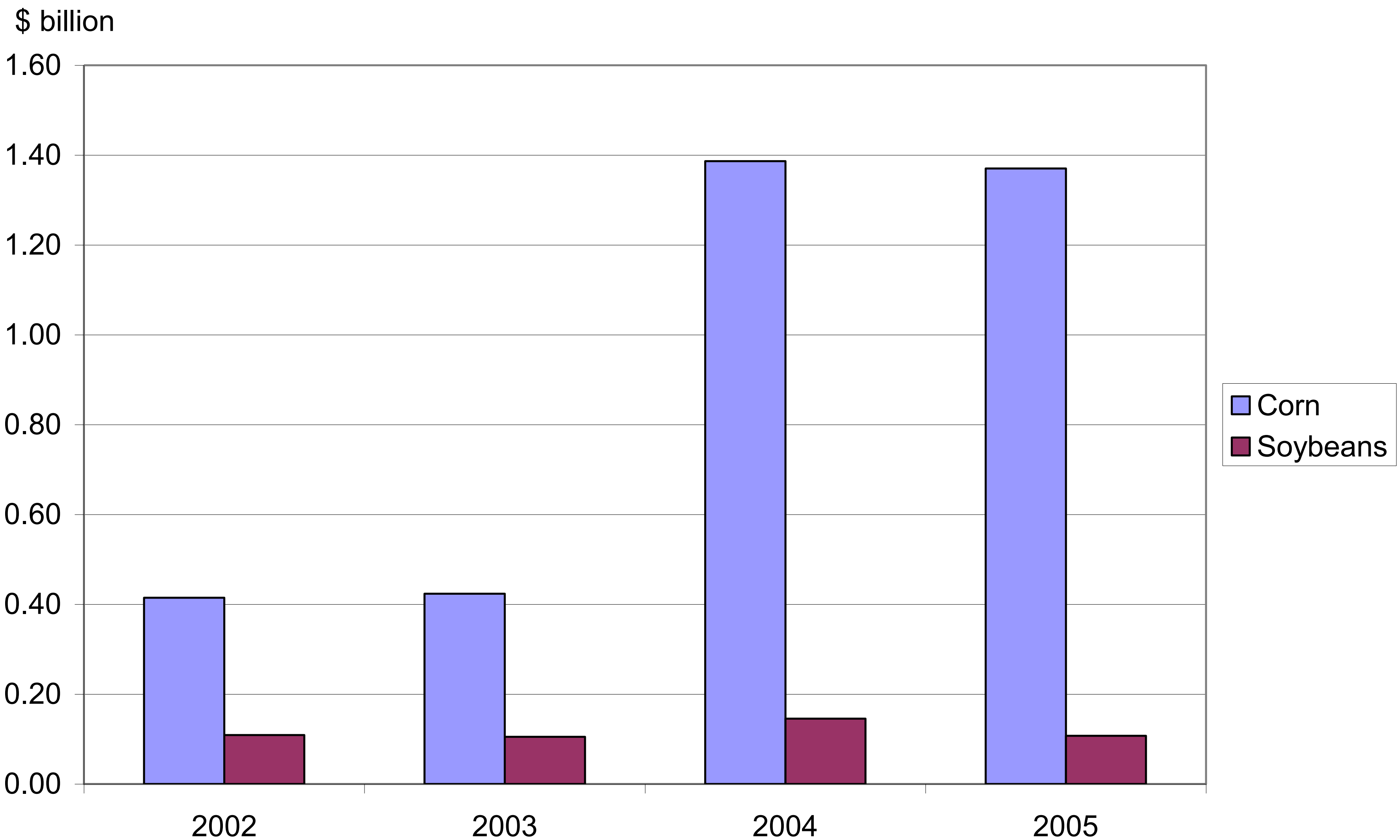
Market Values of Corn and Soybeans in Iowa



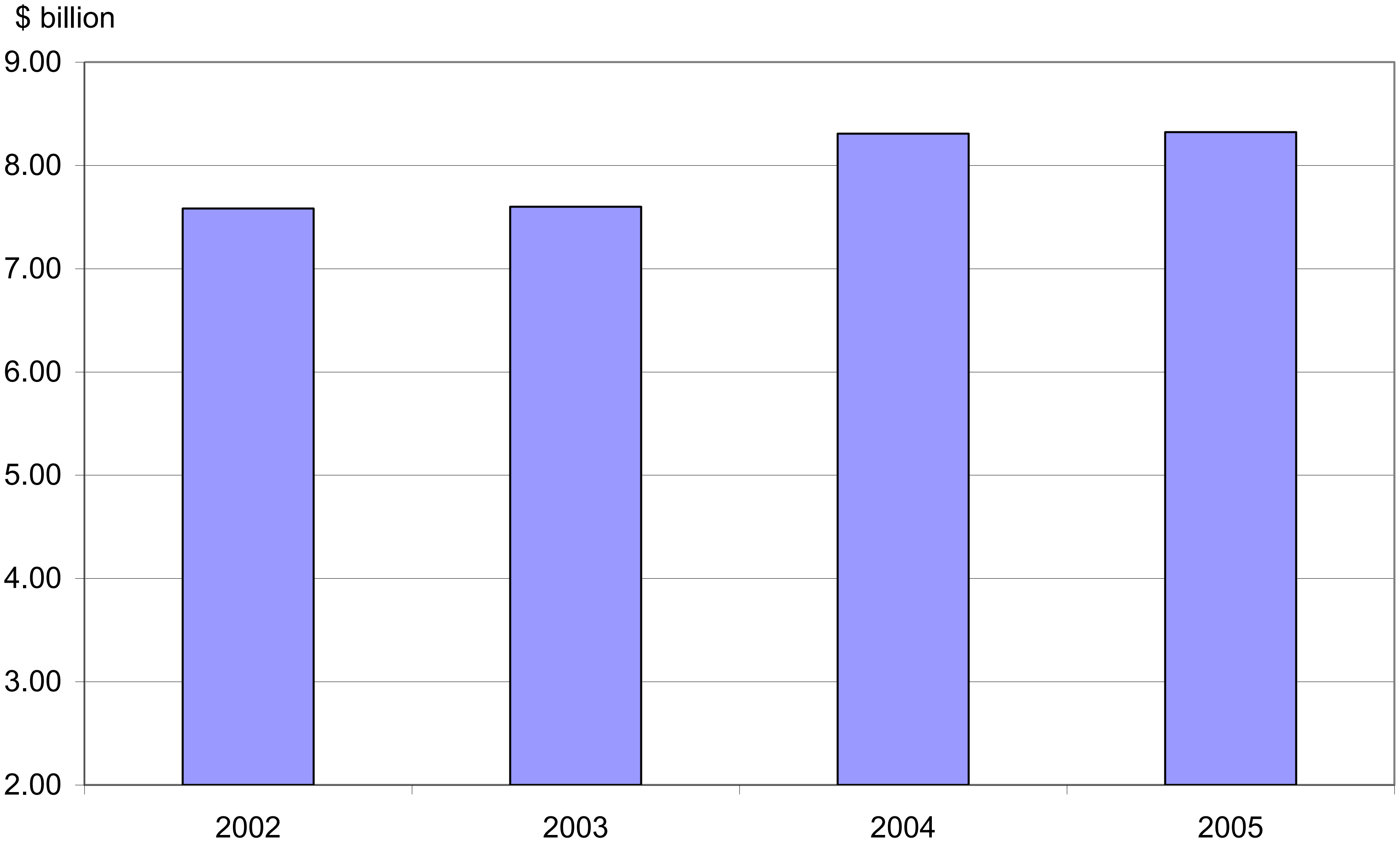
Total Market Value of Corn and Soybeans



Government Payments Received in Iowa



Market Value Plus Government Payments



Three Key Farm Bill Forces at Work

- Inertia: Nothing is broke so why change?
- Budget: “Surpluses as far as the eye can see” to “Deficits as far as the eye can see”
- WTO: New limits on amber and blue box spending would require change

Alternative Programs

- Conservation Payments
- Move to a revenue counter-cyclical payment program
  - Would cost less for by reducing “over-payments”
  - Would reduce importance of crop insurance programs
  - Would be able to deliver higher average payments while meeting WTO constraints

GRIP and GRIP-HRO

- GRIP guarantee =

  Factor*CBOT Springtime Price*Expected County Yield

- GRIP-HRO guarantee =

  Factor*CBOT Fall or Spring Price*Expected County Yield

Factor lies between 0.9 and 1.5.

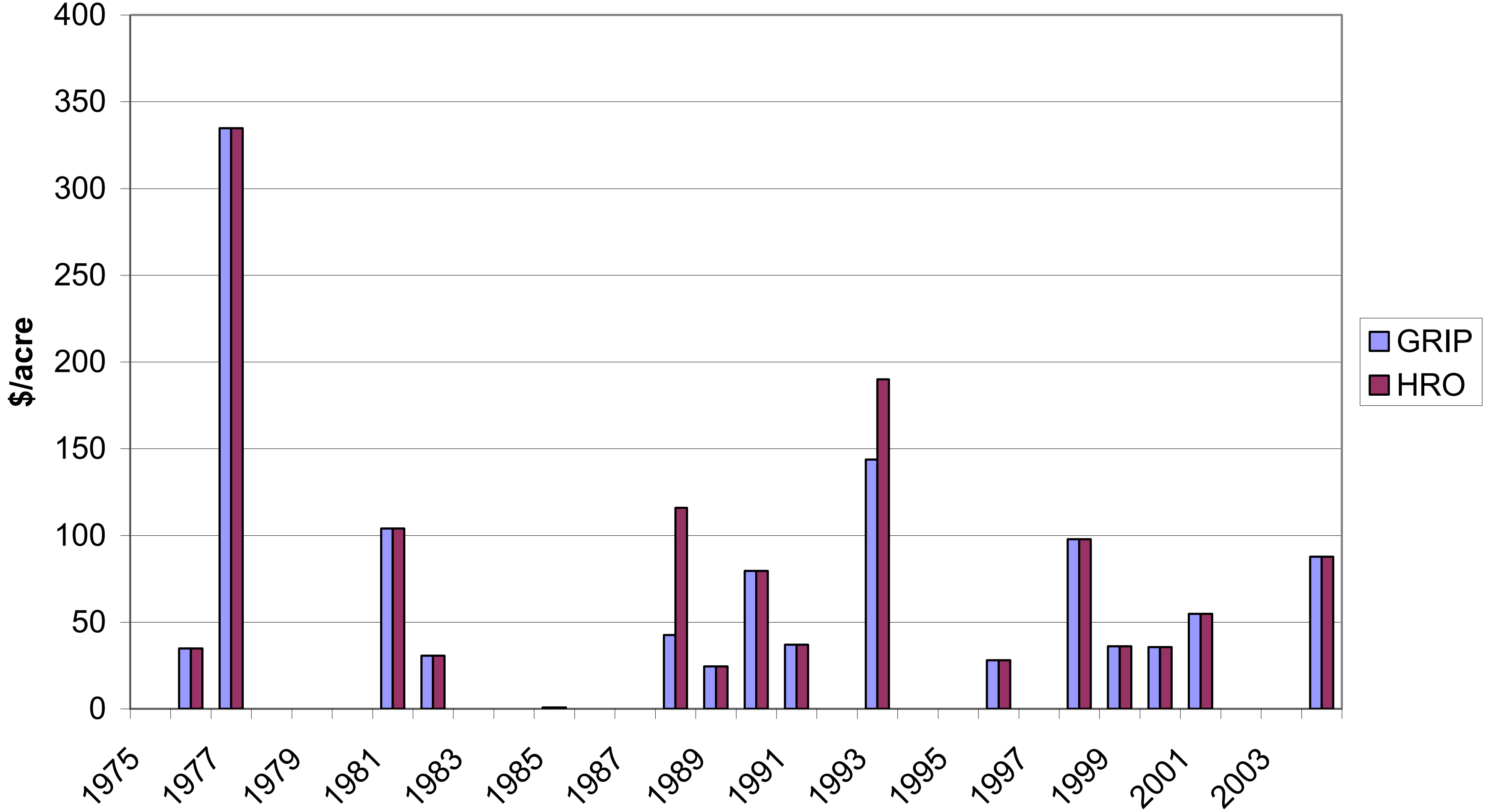
Who Should Buy GRIP?

- Farmers who do not have a representative APH yield
- Farmers who are lower risk than that assumed in APH program
- Farmers with yields that are highly correlated with county yields

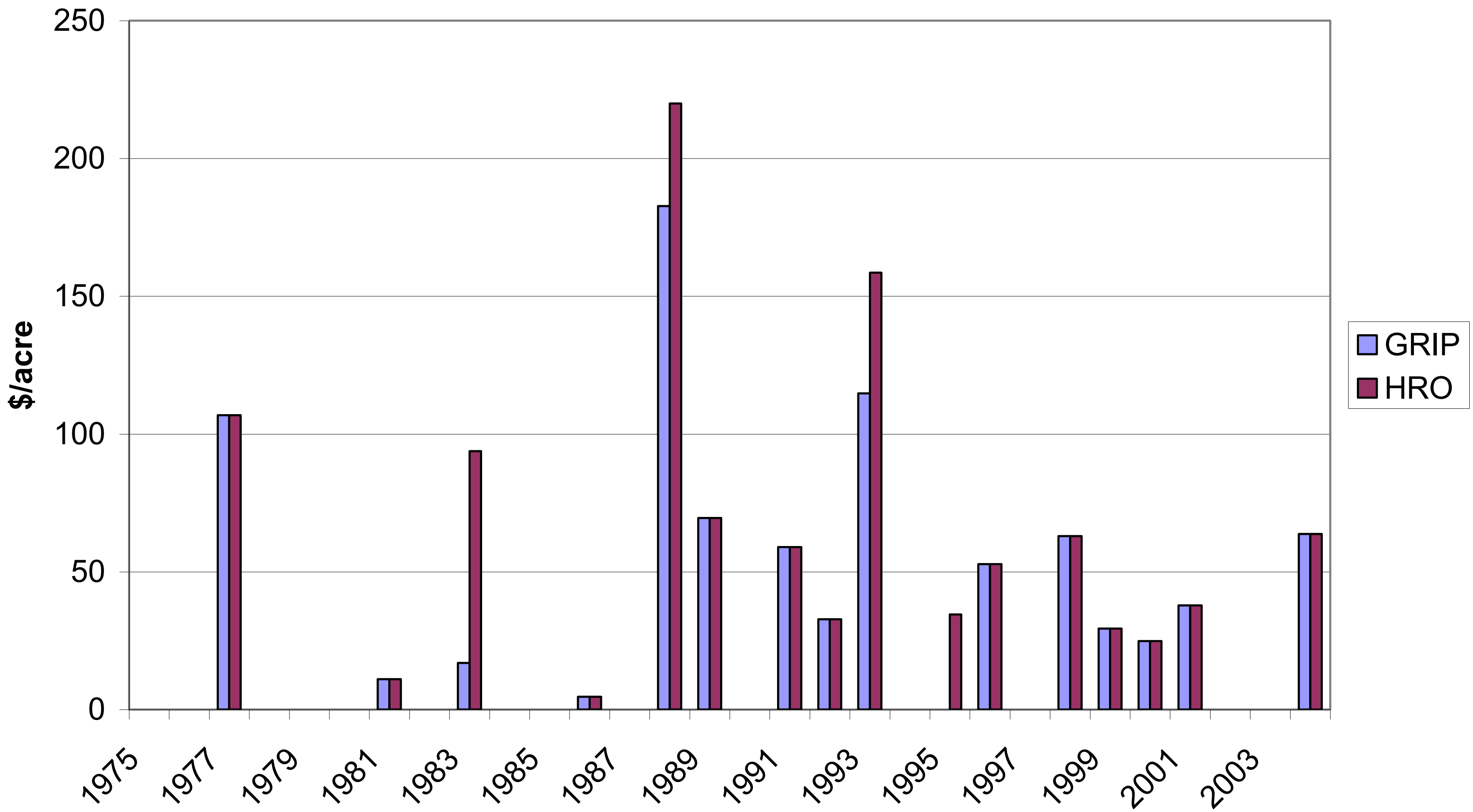
GRIP and GRIP-HRO in Boone County (Expected Yield = 167.5 bu/ac)

	Maximum Coverage Per-Acre $/acre	Total Premium $/acre	Producer Premium $/acre
GRIP	**570.34**	**33.59**	**15.12**
GRIP-HRO	**570.34**	**42.20**	**18.99**

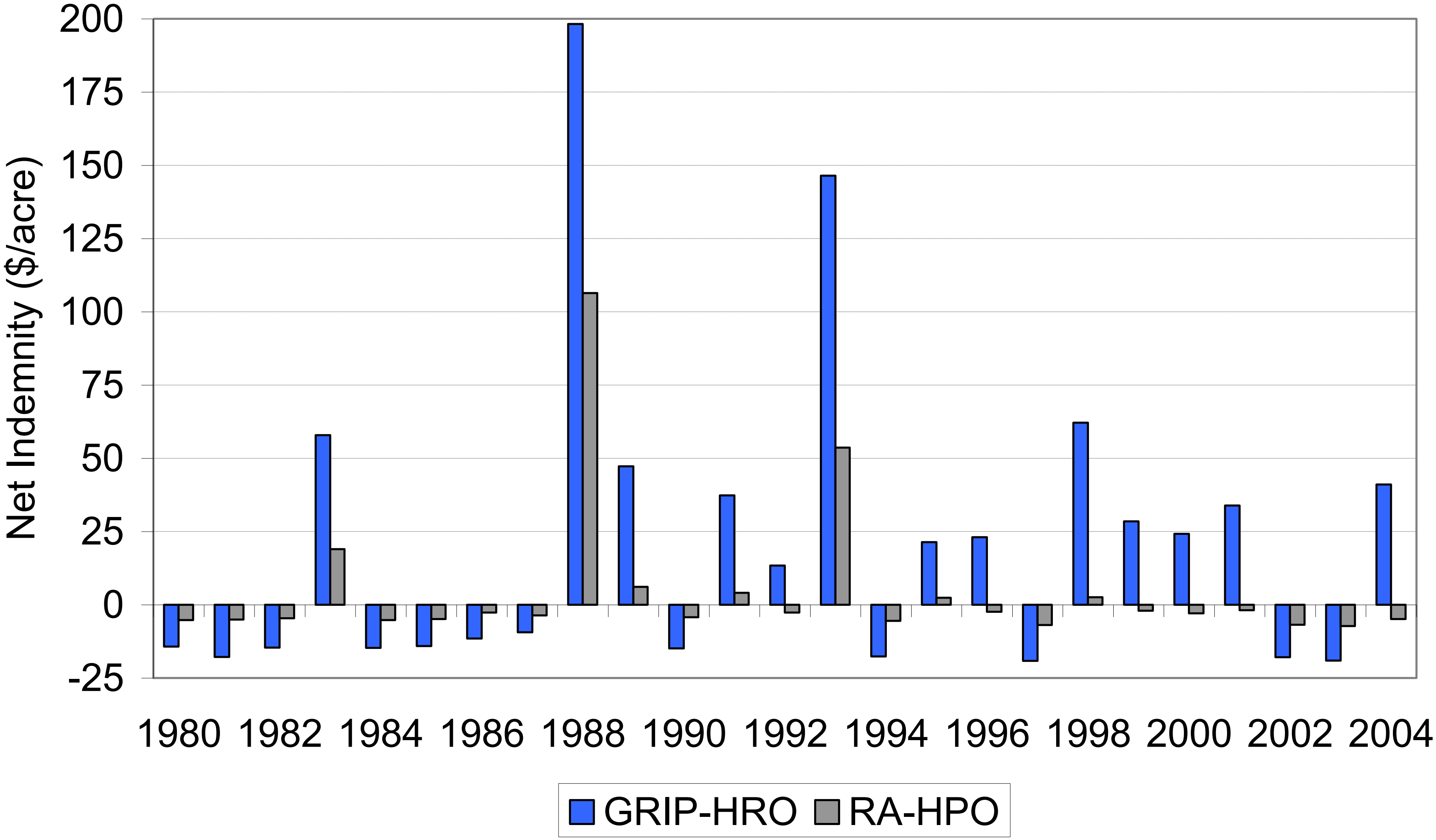
Historical Indemnities that Would Have Been Paid Out Under GRIP and GRIP-HRO in Boone County



Historical Indemnities that Would Have Been Paid Out Under GRIP and GRIP-HRO in Poweshiek County



Comparing Payouts from GRIP-HRO to RA-HPO



Subsidized rate of return for GRIP and GRIP-HRO

- GRIP and GRIP-HRO are even-money bets: for each dollar in total premiums, farmer should receive a dollar back in indemnities
- But farmers are using “house” money to pay their premiums.
- For each dollar of farmer-paid premium, farmer should expect $2.22 back.

	Corn in Poweshiek County, Iowa		Wheat in Barnes County, North Dakota		Non-irrigated cotton in Lubbock County, Texas	
	GRIP-HRO	RA-HPO	GRIP-HRO	RA-HPO	GRIP-HRO	CRC
			($/acre)			
Total Premiums	36.71	14.05	14.83	11.04	49.30	46.86
Producer-Paid Premium	16.52	6.32	6.67	4.97	22.19	21.09
Net Indemnity	21.98	4.61	8.25	5.34	24.87	10.81
Rate of Return	133%	73%	124%	107%	112%	51%

	Corn in Poweshiek County, Iowa		Wheat in Barnes County, North Dakota		Non-irrigated cotton in Lubbock County, Texas	
	GRIP-HRO	RA-HPO	GRIP-HRO	RA-HPO	GRIP-HRO	CRC
			($/acre)			
Total Premiums	36.71	14.05	14.83	11.04	49.30	46.86
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Recommendations

- GRIP is ideal for farmers who
  - do not buy crop insurance, or
  - who are well diversified within a county, or
  - who can withstand a farm crop loss

- questions?

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