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.
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

- **Current limits**
- **New limits**

Bar chart showing
- Amber box
- Blue
- NPS de min
- PS de min

Current limits and new limits are indicated with red lines.
## Impact of U.S. Proposal

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

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

Target Price

- Direct Payment
  - Not Tied To Prod
  - Prod Req.
- Counter-Cyclical Payment
- Loan Rate

Regardless Of Market

- $2.63
- Only if price is here

Loan Deficiency Payment

- $0.28
- “Effective” Target Price
- $2.35
- $1.95
Market Values of Corn and Soybeans in Iowa

$ billion

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)

<table>
<thead>
<tr>
<th></th>
<th>Maximum Coverage Per-Acre</th>
<th>Total Premium $/acre</th>
<th>Producer Premium $/acre</th>
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<tbody>
<tr>
<td>GRIP</td>
<td>570.34</td>
<td>33.59</td>
<td>15.12</td>
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<tr>
<td>GRIP-HRO</td>
<td>570.34</td>
<td>42.20</td>
<td>18.99</td>
</tr>
</tbody>
</table>
Historical Indemnities that Would Have Been Paid Out Under GRIP and GRIP-HRO in Boone County

$/acre


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

$/acre

GRIP
HRO

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

$/acre


GRIP
HRO
Comparing Payouts from GRIP-HRO to RA-HPO

Net Indemnity ($/acre)


GRIP-HRO 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 $2.22 back.
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<tr>
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<th>Wheat in Barnes County, North Dakota</th>
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<td>Total Premiums</td>
<td>36.71</td>
<td>14.05</td>
<td>14.83</td>
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<td>Producer-Paid Premium</td>
<td>16.52</td>
<td>6.32</td>
<td>6.67</td>
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<td>Net Indemnity</td>
<td>21.98</td>
<td>4.61</td>
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<td>Rate of Return</td>
<td>133%</td>
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($/acre)

CRC: 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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