

Farm Bills and Energy Acts

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Ames, Iowa

Farm Bill Progress

- The House and Senate have both passed versions
- Both proposed farm bills face veto threats
- Conference members have not been formally named
- Major work will likely happen over the next couple of weeks

Let's Start with the House Version

- Continues direct payment, counter-cyclical payment, and marketing loan programs
- Rebalances target prices and loan rates
- Opens up an optional revenue-based counter-cyclical program
- Modifies payments limits for commodity programs
- Extends the Milk Income Loss Contract Program until 2012

House Target Price Changes

Crop	Unit	Current TP	Change
Corn	\$/bu.	2.63	0.00
Soybeans	\$/bu.	5.80	0.30
Barley	\$/bu.	2.24	0.49
Wheat	\$/bu.	3.92	0.23
Oats	\$/bu.	1.44	0.06
Cotton	\$/lb.	0.724	-0.024
Minor Oilseeds	\$/lb.	0.101	0.014

House Direct Payments

Crop	Unit	Current DP
Corn	\$/bu.	0.28
Soybeans	\$/bu.	0.44
Wheat	\$/bu.	0.52
Oats	\$/bu.	0.024
Sorghum	\$/bu.	0.35
Cotton	\$/lb.	0.0667
Rice	\$/cwt.	2.35

House Loan Rate Changes

Crop	Unit	Current LR	Change
Corn	\$/bu.	1.95	0.00
Soybeans	\$/bu.	5.00	0.00
Wheat	\$/bu.	2.74	0.19
Malt Barley	\$/bu.	1.85	0.65
Feed Barley	\$/bu.	1.85	0.05
Oats	\$/bu.	1.33	0.13
Minor Oilseeds	\$/lb.	0.093	0.014

Revenue Counter-Cyclical Option

- Gives producers a one-time option to choose between revenue- or price-based counter-cyclical payments
- Actual revenue = National average yield
*Max(Season-average Price, Loan Rate)
- Target revenue determined by Congress

House Per Acre Target Revenues

Crop	TR	Crop	TR
	(\$/acre)		(\$/acre)
Corn	344.12	Wheat	149.92
Soybeans	231.87	Oats	92.10
Sorghum	131.28	Cotton	496.93
Barley	153.30	Rice	548.06
Minor Oilseeds	129.18	Peanuts	683.83

National Payment Rate

- $(\text{Target revenue per acre} - \text{Actual revenue per acre}) / \text{National payment yield}$
- Puts payment on a per yield unit basis
- Payments to producers are equal to National payment rate * Current CCP payment acres * Current CCP payment yield

House National Payment Yields

Crop	PY	Crop	PY
Corn	114.4 bu.	Wheat	36.1 bu.
Soybeans	34.1 bu.	Oats	49.8 bu.
Sorghum	58.2 bu.	Cotton	634 lb.
Barley	48.6 bu.	Rice	5,128 lb.
Minor Oilseeds	1,167.6 lb.	Peanuts	1.496 tons

Revenue Counter-cyclical Example

- National Average Yield = 150 bu./acre
- Season-Average Price = \$2.10/bu.

- Actual Revenue = \$315/acre
- Revenue CCP Payment Rate = \$0.25/bu.
$$(344.12 - 315.00)/114.4$$

- Current CCP Payment Rate = \$0.25/bu.

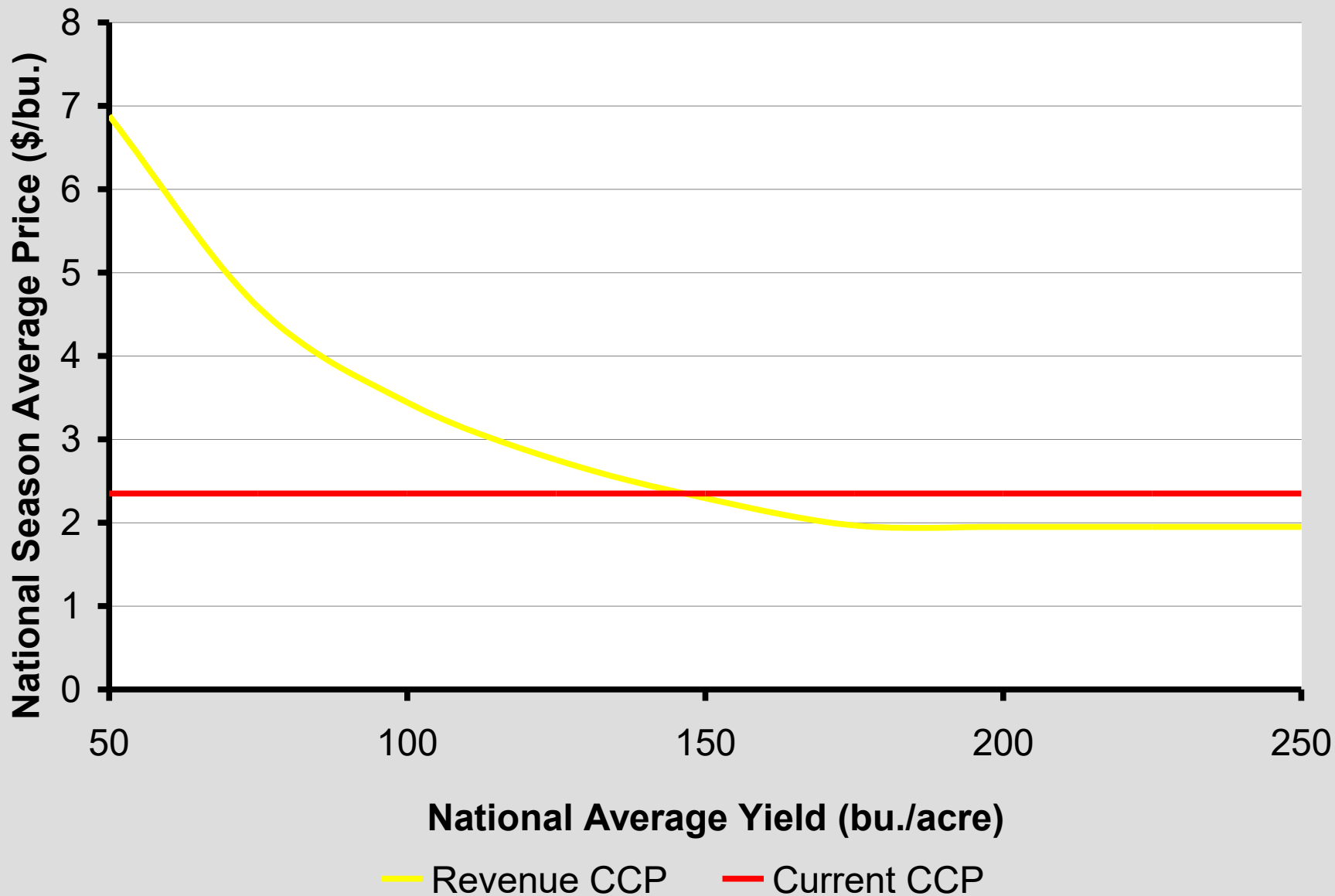
But the Payments Will Differ

- National Average Yield = 145 bu./acre
- Season-Average Price = \$2.10/bu.
- Revenue CCP Payment Rate = \$0.35/bu.
- Current CCP Payment Rate = \$0.25/bu.

But the Payments Will Differ

- National Average Yield = 155 bu./acre
- Season-Average Price = \$2.10/bu.
- Revenue CCP Payment Rate = \$0.16/bu.
- Current CCP Payment Rate = \$0.25/bu.

Counter-cyclical Payout Regions



Marketing Loan Adjustments

- Separate loan rates for:
 - Long vs. short grain rice
 - Feed vs. malt barley
- Equalized county loan rates between corn and sorghum
- Changed definition of adjusted world price for cotton

Payment Limitations

- Eliminates the 3-entity rule
- Direct attribution
- AGI cap of \$1 million (3-year average)
- If AGI > \$500K, 2/3 of income from agriculture
- Direct payment cap = \$60K
- Counter-cyclical payment cap = \$65K
- Marketing loan payment cap eliminated

Other Provisions in Commodity Title

- No payments under \$25
- Extends MILC and sugar programs
- Mandates use of surplus sugar for ethanol
 - $\text{Surplus} = \text{Imports} - \text{U.S. food demand}$
- Pilot program in Indiana: allowing tomatoes on base acreage (payment base temporary reduced)

Conservation Title

- Expand EQIP (\$1.9 billion over 5 years)
- Prohibit additional CSP signups until 2012
- Change CSP structure (no more tiers)
- Extend CRP, WHIP, and WRP

Energy Title

- Renews Biobased products program
- Extends loan guarantees for biorefineries, along with many of the energy programs in the current farm bill
- Research money for alternative feedstocks
- Feasibility study of ethanol pipeline
- Creation of Biomass Inventory Report and Biomass Energy Reserve

Miscellaneous Title

- Drop crop insurance administrative and operating expense rate to a max of 21.6%
- Raise fee for catastrophic coverage to \$200 per crop per county
- Target loss ratio moved from 1.075 to 1
- COOL by 2008 for red meats only

CBO Projections for the House Version

Title	Change, 2008-12	Title	Change, 2008-12
	(\$ million)		(\$ million)
Commodity	-973	Research	265
Conservation	2,792	Forestry	41
Trade	601	Energy	2,429
Nutrition	4,205	Hort. and Organic	548
Credit	-378	Misc. and Additional	-6,130
Rural Dev.	114	Total	3,514

Now on to the Senate Version

- Continues direct payment, counter-cyclical payment, and marketing loan programs
- Rebalances target prices and loan rates
- Opens up an optional revenue-based counter-cyclical program
- Modifies payments limits for commodity programs
- Extends the Milk Income Loss Contract Program until 2012

Senate Target Price Changes

Crop	Unit	Current TP	Change
Corn	\$/bu.	2.63	0.00
Soybeans	\$/bu.	5.80	0.20
Barley	\$/bu.	2.24	0.39
Wheat	\$/bu.	3.92	0.28
Oats	\$/bu.	1.44	0.39
Cotton	\$/lb.	0.724	-0.0015
Minor Oilseeds	\$/lb.	0.101	0.0264

Senate Direct Payments

Crop	Unit	Current DP
Corn	\$/bu.	0.28
Soybeans	\$/bu.	0.44
Wheat	\$/bu.	0.52
Oats	\$/bu.	0.024
Sorghum	\$/bu.	0.35
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Rice	\$/cwt.	2.35

Senate Loan Rate Changes

Crop	Unit	Current LR	Change
Corn	\$/bu.	1.95	0.00
Soybeans	\$/bu.	5.00	0.00
Wheat	\$/bu.	2.74	0.20
Barley	\$/bu.	1.85	0.10
Oats	\$/bu.	1.33	0.06
Minor Oilseeds	\$/lb.	0.093	0.0079

Average Crop Revenue Option

- Gives producers a one-time option (over a three year window) to choose a revenue-based counter-cyclical payment program
- Producers choose between the current stable of programs or Average Crop Revenue (ACR) with a fixed payment (\$15 per base acre for 100% of base) and recourse loans

ACR

- State-level revenue counter-cyclical program starting in 2010
- Expected state yield based on linear trend yield per planted acre for state (1980-2006)
- ACR state pre-planting price is the average of revenue insurance planting prices for current year and previous 2 years

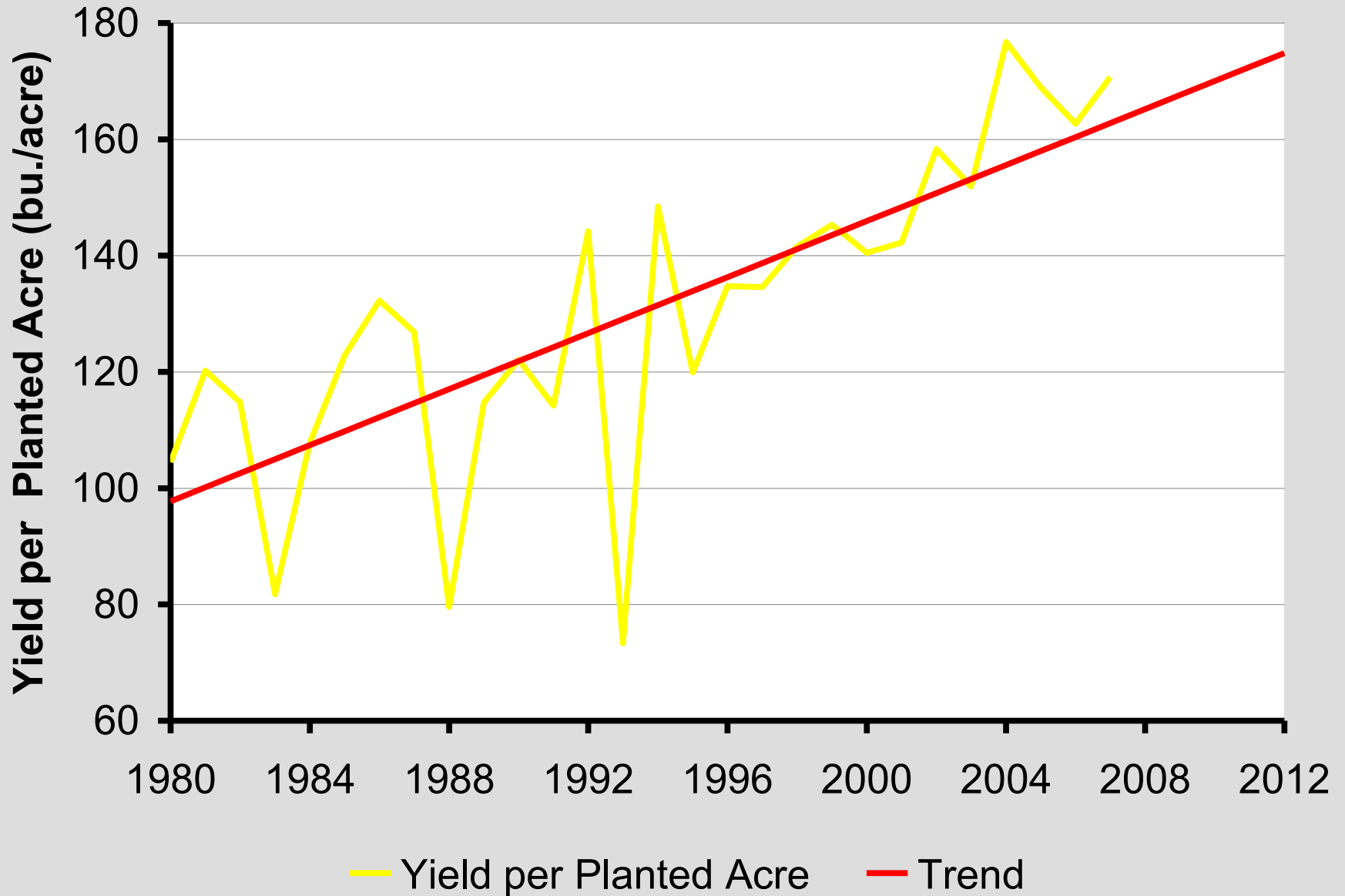
ACR Structure

- Target Revenue = $90\% * \text{Expected State Yield} * \text{ACR State Pre-Planting Price}$
- Actual State Revenue = $\text{Actual State Yield per Planted Acre} * \text{Revenue Insurance Harvest Price}$
- Payment triggered when actual revenue is below target revenue

ACR Payments

- $\text{Payment Rate} = 90\% * (\text{Target Revenue} - \text{Actual State Revenue}) * \text{Ratio of Producer Insurance Yield to Expected State Yield}$
- Payments made on 85% of base acres

ACR Yields for Iowa Corn

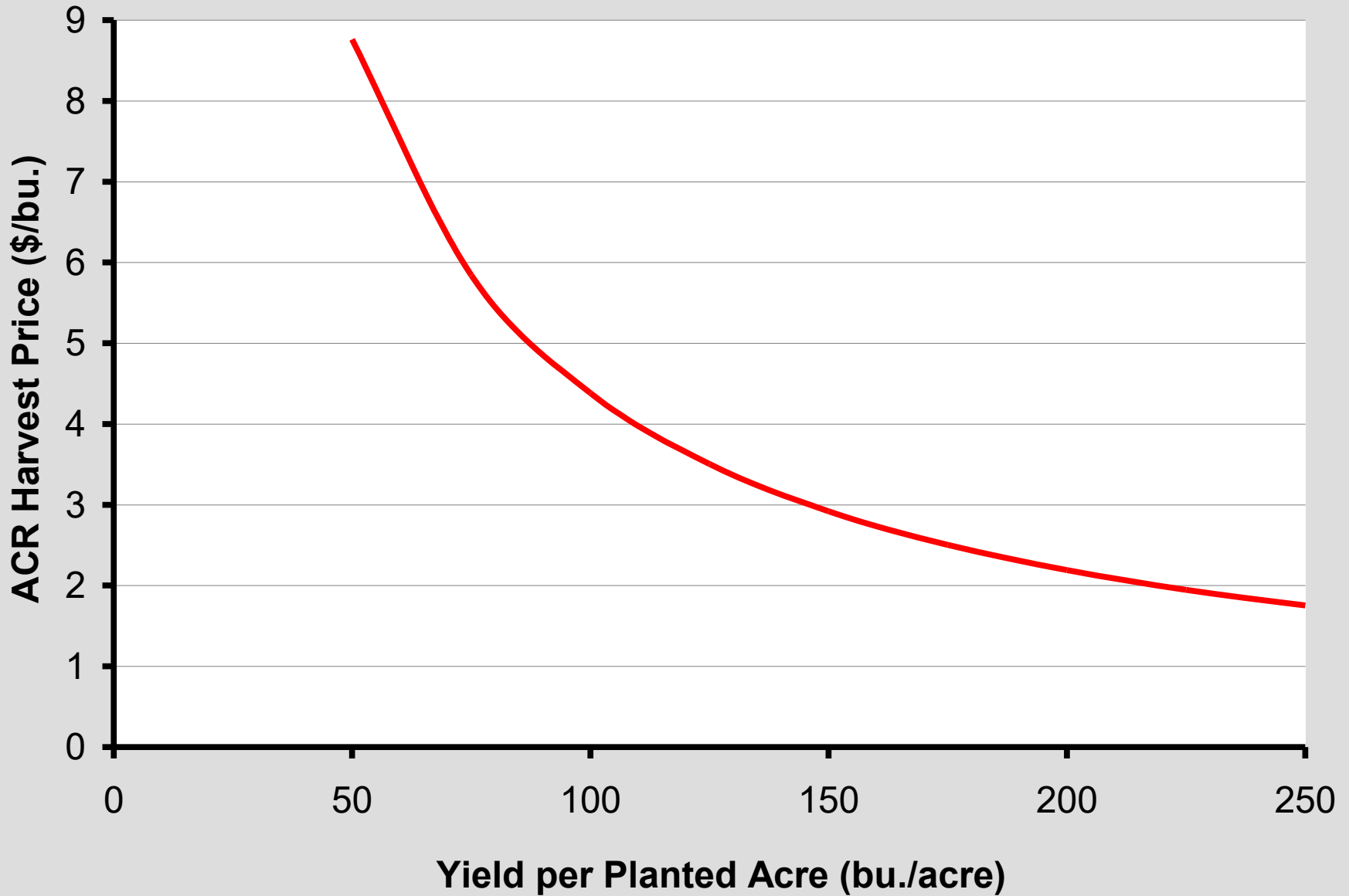


ACR Parameters for Iowa Corn

Year	Trend Yield (bu/acre)	Year	Insurance Price (\$/bu)
2007	162.8	2005	2.32
2008	165.2	2006	2.59
2009	167.6	2007	4.06
2010	170.0		
2011	172.4	Average	2.99
2012	174.8		

For 2007, target revenue would be \$438.09 per acre

ACR Payout Region



Marketing Loan Adjustments

- Separate loan rates for:
 - Long vs. medium grain rice
- Equalized county loan rates between corn and sorghum
- Changed definition of adjusted world price for cotton

Payment Limitations

- Direct attribution
- For 2009, AGI > \$1 million, 2/3 of income from agriculture
- For 2010 and beyond, AGI > \$750K, 2/3 of income from agriculture
- Direct payment cap = \$40K
- Counter-cyclical payment cap = \$60K
- Marketing loan payment cap eliminated
- No cap on ACR payments

Other Provisions in Commodity Title

- Changed title name to Producer Income Protection (PIP)
- Extends MILC and sugar programs
- Mandates use of surplus sugar for ethanol
 - Surplus = Imports – U.S. food demand
- Pilot program in Indiana: allowing tomatoes on base acreage (payment base temporary reduced)

Crop Insurance in PIP Title

- Reduced target loss ratio from 1.075 to 1
- Removes authority for Premium Reduction Plan
- Moves timing of producer-paid premiums (earlier) and insurance company reimbursements (later)
- Reduces administrative & operating expense reimbursement on area insurance plans
- Increases fees for catastrophic insurance and NAP

Conservation Title

- Rename and expand CSP (targeting nearly 80 million acres by 2017)
- Combining CSP and EQIP in the Comprehensive Stewardship Incentives Program (CSIP)
- Extend EQIP (no additional funds)
- Extend CRP, WHIP, and WRP

Energy Title

- Renews Biobased products program
- Extends loan guarantees for biorefineries, along with many of the energy programs in the current farm bill
- Research money for alternative feedstocks
- Feasibility study of ethanol pipeline

Livestock Title

- COOL by 2008 for beef, pork, lamb, goat meat, fish, agricultural commodities, peanuts, and macadamia nuts

CBO Projections for the Senate Version

Title	Change, 2008-12	Title	Change, 2008-12
	(\$ million)		(\$ million)
Producer Income Protection	-7,501	Research	-152
Conservation	4,424	Forestry	0
Trade	175	Energy	1,020
Nutrition	5,271	Livestock	1
Credit	-278	Misc.	-153
Rural Dev.	355	Total	3,163

Timing

- Right now, waiting for conference
- Conference members have not been named
- Harkin will chair conference committee
- With money outside of agriculture used for offsets, conference committee will need to include members from other committees (Finance, Ways and Means)
- Both House and Senate bills face veto threats

Biofuel Factors

Feedstock costs and competition

- High corn prices
- High soybean oil prices
- Vegetable oil demand in Southeast Asia

Energy markets

- High oil and gas prices

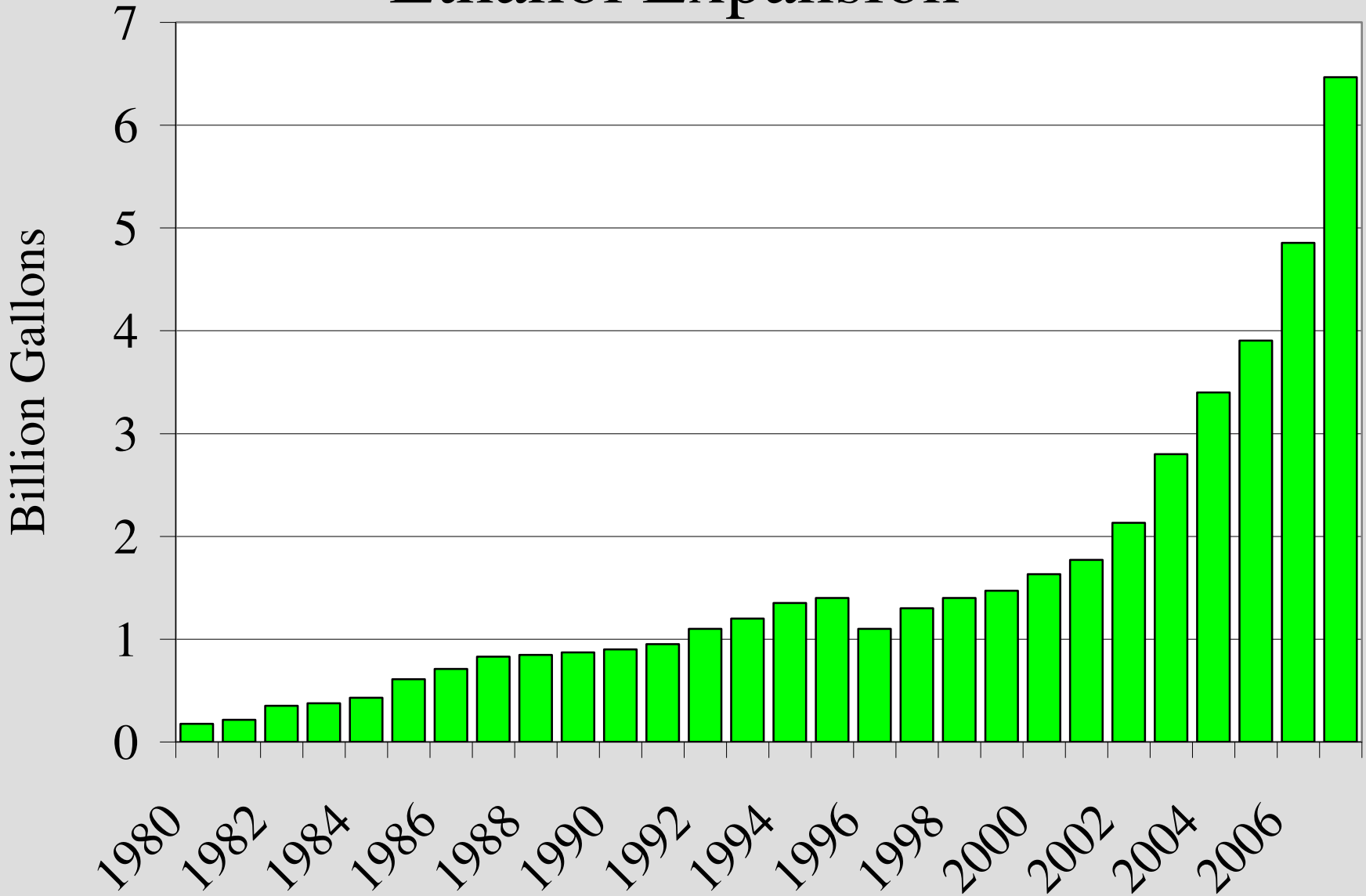
Continued government support

- Passage of the 2007 Energy Act
- Efforts to extend biofuel tax credits

Consumer demand for biofuels

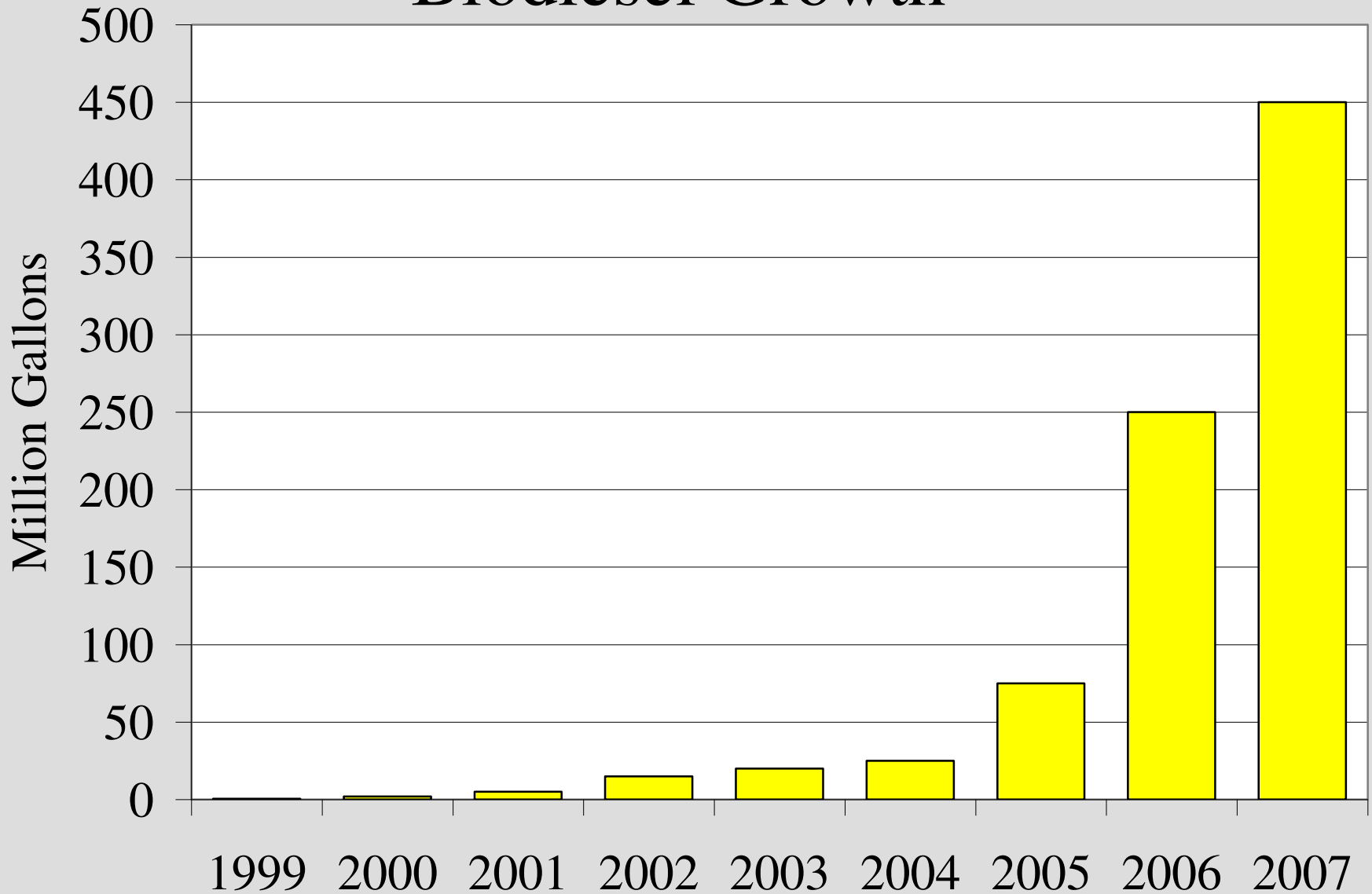
- Southeast U.S.

Ethanol Expansion



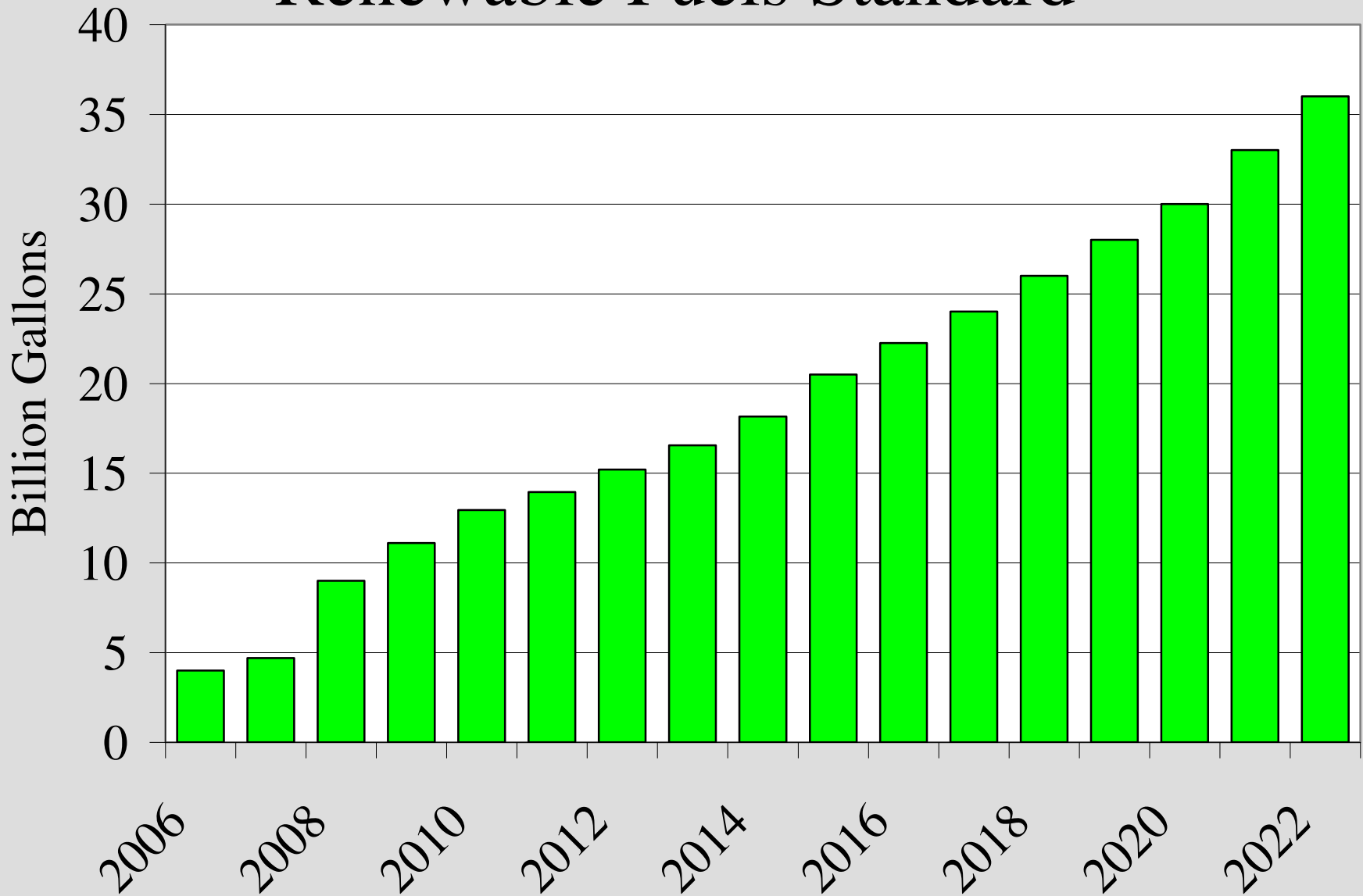
Source: Renewable Fuels Association

Biodiesel Growth

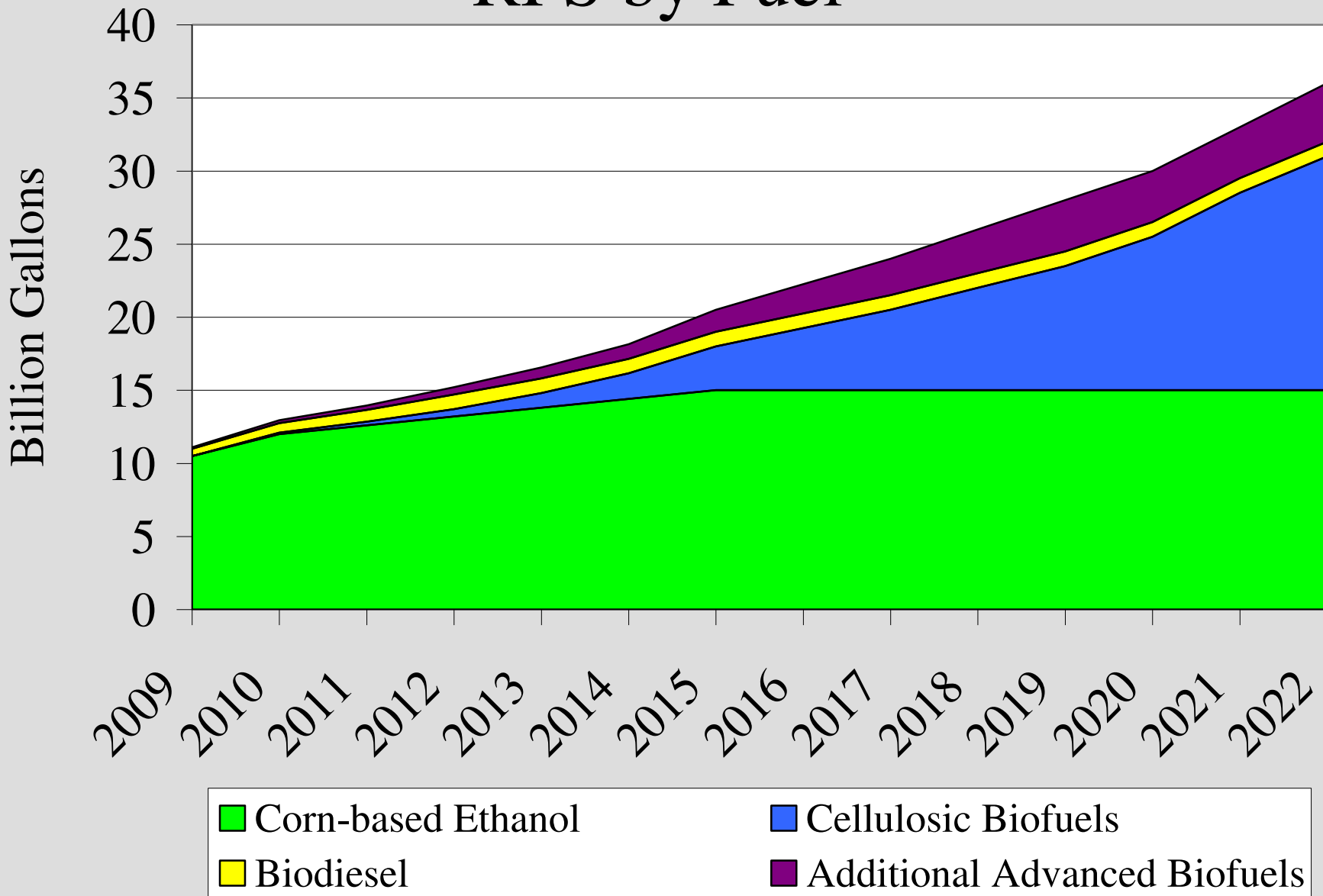


Source: National Biodiesel Board

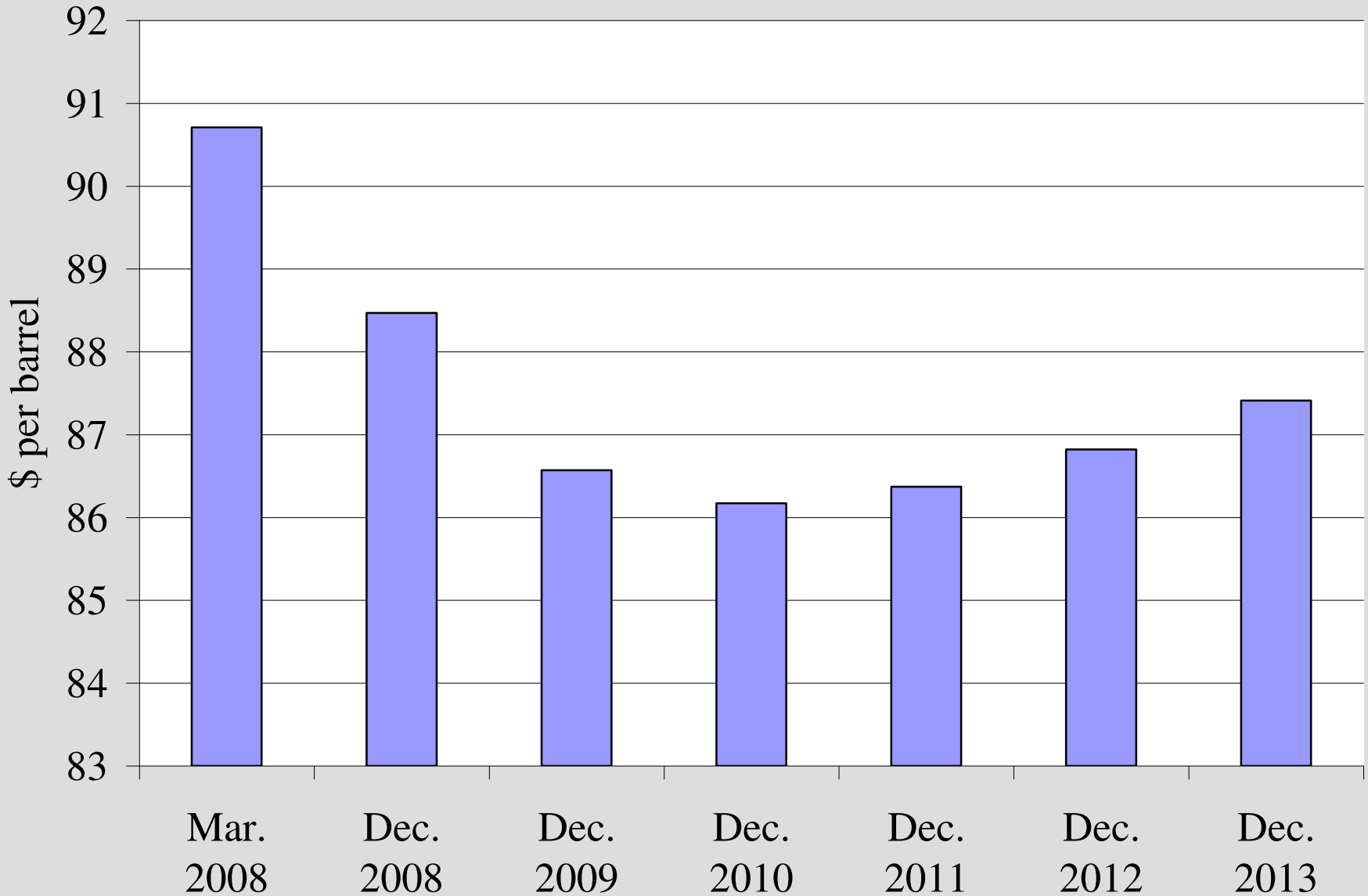
Renewable Fuels Standard



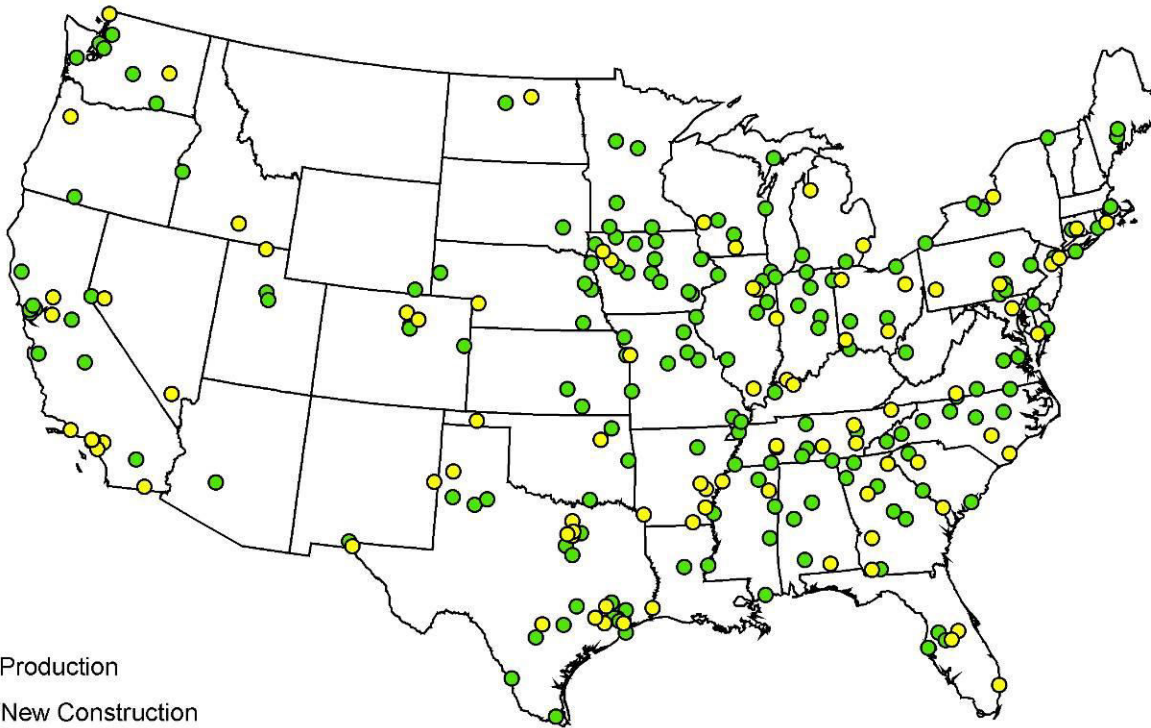
RFS by Fuel



Oil Futures As Of 1/25/2008



U.S. Biodiesel Industry



- Current biodiesel capacity: 165 plants, 1.85 billion gallons/year
- Total capacity under construction and expansion: 1.35 billion gallons/year
- 80 new plants underway

- 2.8 billion pounds of soybean oil was used in producing biodiesel in 2006/2007 marketing year.
- 3.8 billion pounds of soybean oil are expected to be used in producing biodiesel for 2007/2008 marketing year.

Biodiesel – State by State

State	Current Capacity	Under Construction
	(million gallons)	
TX	332	202
IA	319	35
IL	96	111
MO	125	40
MS	116	40
AL	95	60
WA	128	19
IN	121	15
NJ	74	60
GA	75	57

Biodiesel Internationally

EU

Biofuel targets: 5.75% by 2010
 10% by 2020

Argentina

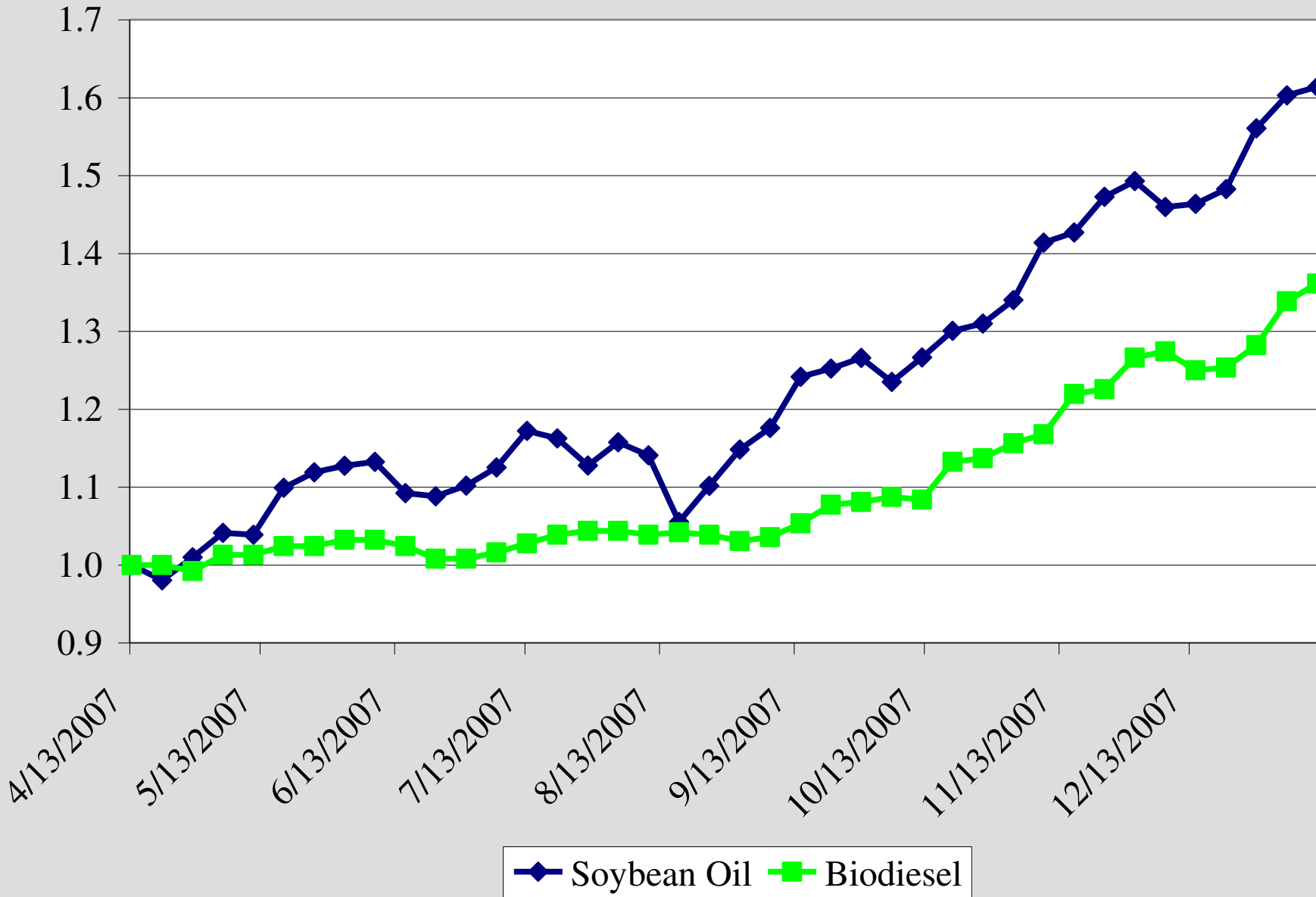
Biodiesel mandate: 5% by 2010

Brazil

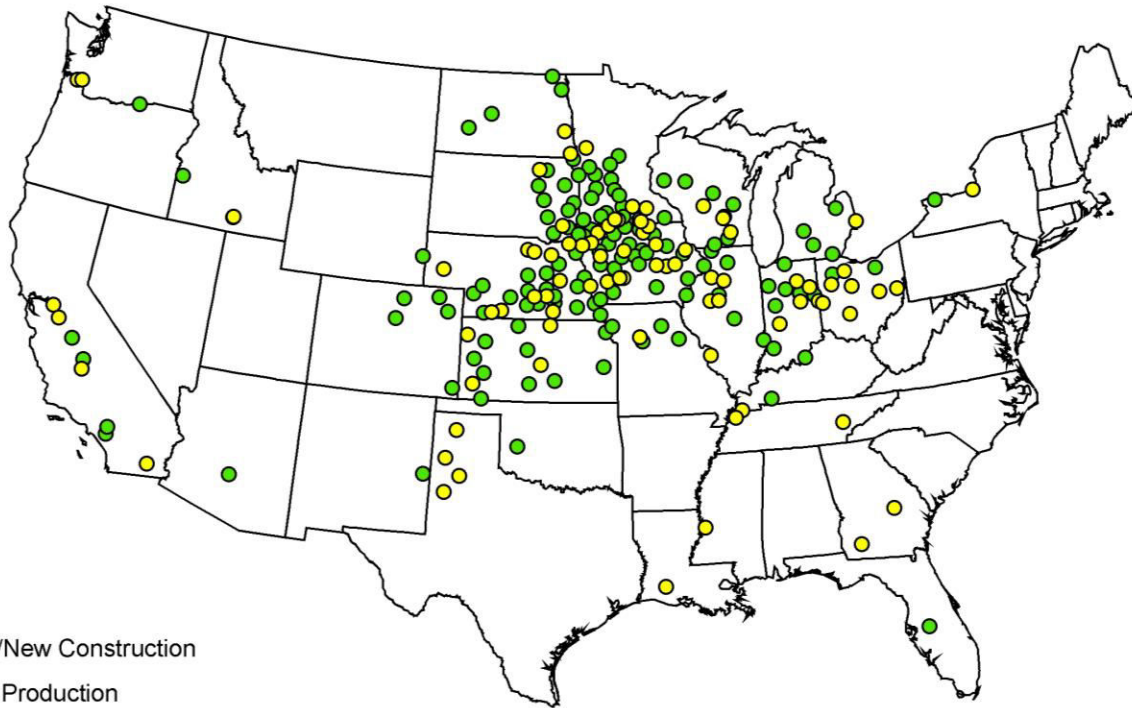
Biodiesel mandate: 2% in 2008
 5% by 2010

Many U.S. producers have targeted the EU market

Biodiesel Price Ratios



U.S. Ethanol Industry



- Expansions/New Construction
- Currently in Production

- Current ethanol capacity: 137 plants, 7.63 billion gallons/year
- Total capacity under construction and expansion: 5.74 billion gallons/year
- 63 new ethanol plants and 7 expansion projects underway

- 2.1 billion bushels of corn were used in producing fuel ethanol in 2006/2007 marketing year.
- 3.2-3.5 billion bushels of corn are expected to be used in producing fuel ethanol for 2007/2008 marketing year.

Ethanol Industry Snapshots

	Ethanol Plants	Capacity (mgy)
Jan. 2000	54	1,749
Jan. 2001	56	1,921
Jan. 2002	61	2,347
Jan. 2003	68	2,707
Jan. 2004	72	3,101
Jan. 2005	81	3,644
Jan. 2006	95	4,336
Jan. 2007	110	5,493
Jan. 2008	137	7,625

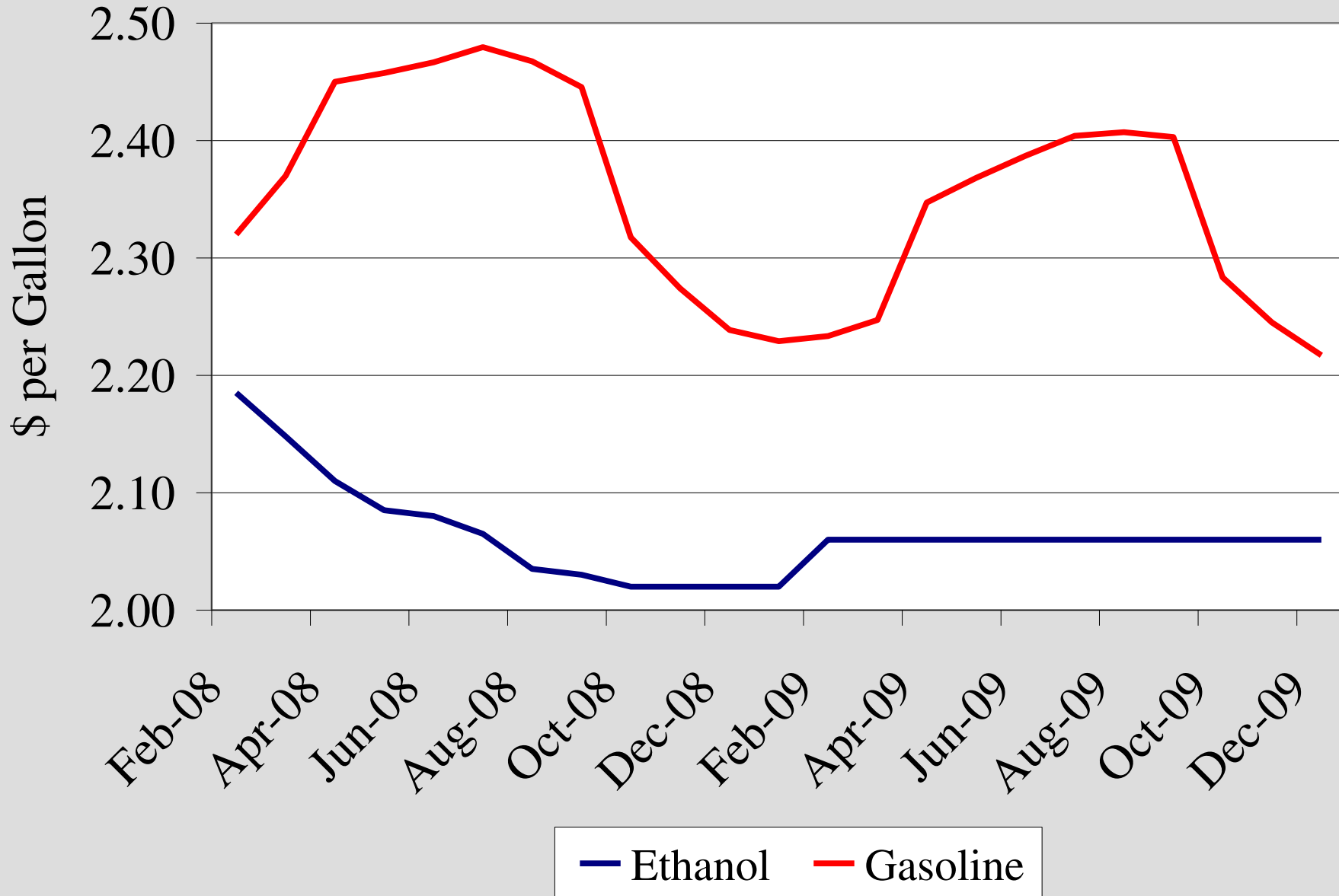
Source: Renewable Fuels Association

Ethanol – State by State

State Current Capacity Under Construction
(million gallons)

IA	2,043	1,705
NE	1,224	987
IL	884	291
MN	667	473
IN	487	536
SD	658	278
KS	452	125
OH	69	479
WI	282	220
TX	0	385

Comparing Futures Prices

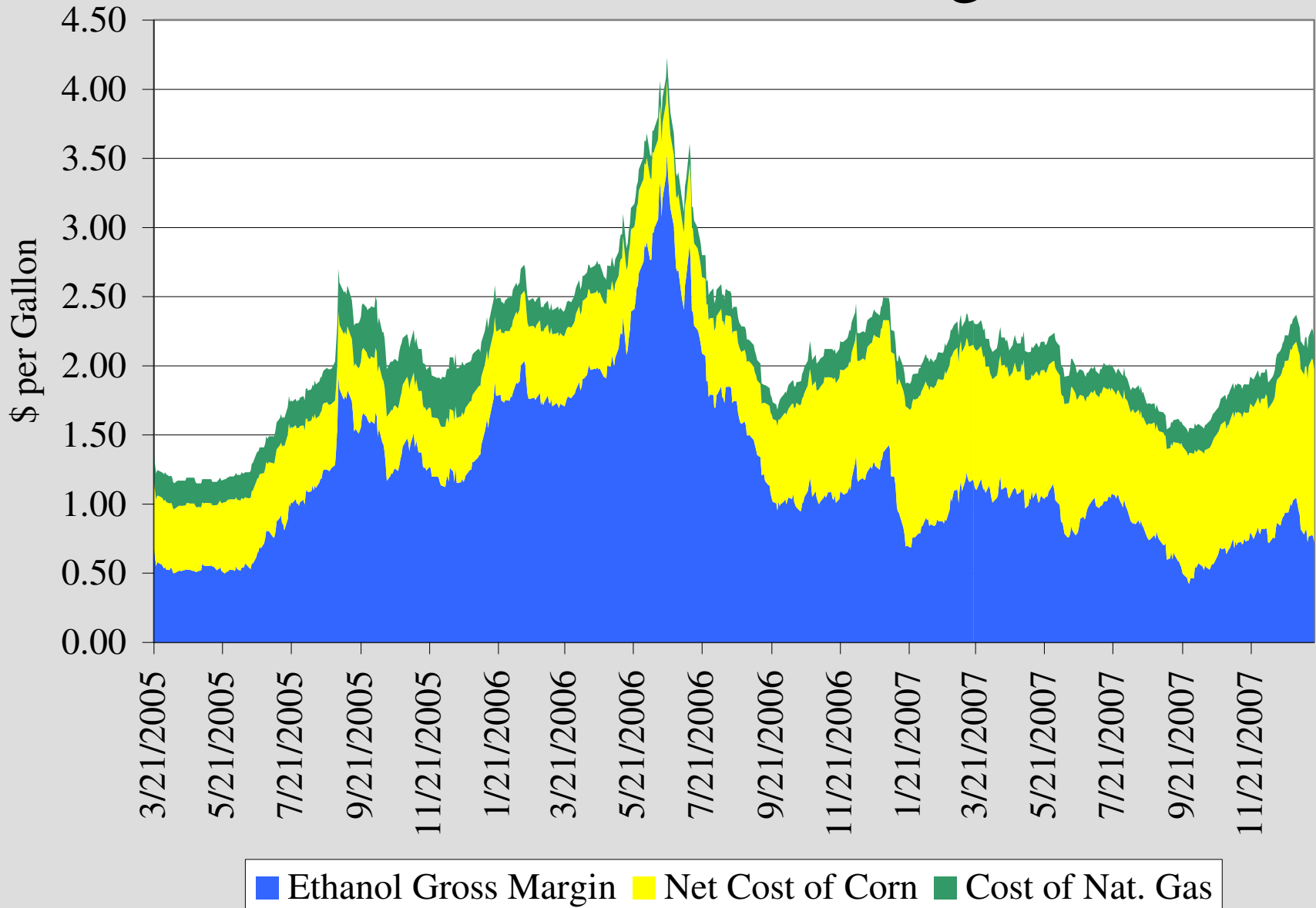


A Quick Look at Ethanol Blending

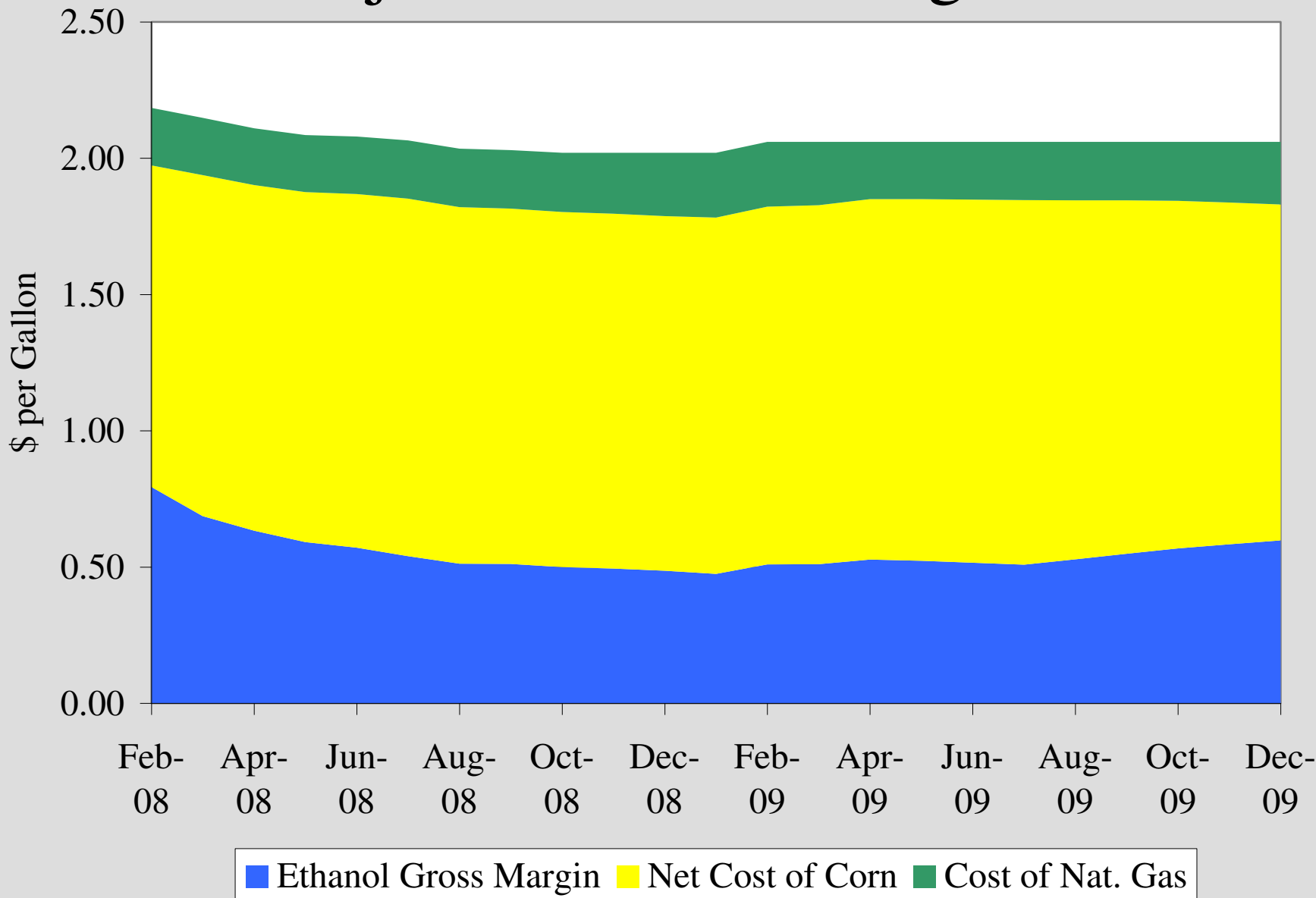
	January 2007		November 2007	
	Unleaded	E-10	Unleaded	E-10
	(\$/gallon)		(\$/gallon)	
Gasoline	1.490	1.341	2.520	2.268
Ethanol		0.226		0.208
Price before Taxes	1.490	1.567	2.520	2.476
Fed. Gas Tax	0.184	0.184	0.184	0.184
Ethanol Tax Credit		-0.051		-0.051
Price after Fed. Taxes	1.674	1.700	2.704	2.609

Gasoline and ethanol prices are monthly average rack prices for Omaha

Historical Ethanol Margins



Projected Ethanol Margins



Thanks for your time!

Any questions?