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Research Report

Economic comparison of the farm, nutrition, and bioenergy act (H.R. 2419) to fairness in farm and food policy amendment to H.R. 2419

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Agricultural and Food Policy Center The Texas A&M University System



Teaching Research Extension

AFPC

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Economic Comparison of the Farm, Nutrition, and Bioenergy Act (H.R. 2419) to Fairness in Farm and Food Policy Amendment to H.R. 2419

The House Agriculture Committee unanimously passed their farm bill, “Farm, Nutrition and Bioenergy Act of 2007” (H.R. 2419). An amendment, “Fairness in Farm and Food Policy,” H.R. 2419 was announced by Ron Kind (D-WI). The purpose of this Briefing Report is to compare the likely economic impacts of H.R. 2419 and the FFFP Amendment on representative crop, dairy, and cattle farms.

Methodology

The analysis was conducted over the 2008-2012 planning horizon using FLIPSIM, AFPC’s whole farm simulation model, and data sets for 38 representative farms. The FLIPSIM policy model incorporates the historical price and production risk faced by agricultural producers. Data to simulate agricultural operations in the nation’s major production regions comes from two sources:

- Producer panel cooperation to develop economic information to describe and simulate 99 representative crop, livestock, and dairy farms. This report highlights the impacts of H.R. 2419 and FFFP Amendment on a subset of AFPC’s representative farms. Characteristics for each of the operations in terms of location, size, crop mix, assets, and average receipts can be found in AFPC Working Paper 07-1 (<http://www.afpc.tamu.edu>).
- In a companion study, FAPRI produced a risk based analysis of the sector level impacts for H.R. 2419 and the FFFP Amendment. The risk based prices and payment rates in these reports were used for the present report.

Scenarios

This report compares the financial performance for representative farms, dairies, and ranches located across the U.S. for three scenarios. The first scenario is the House Agriculture Committee’s farm bill, H.R. 2419. The second scenario is the FFFP Amendment assuming producers elect not to use the risk management account. The third scenario is the FFFP

Amendment but assuming producers elect to use the risk management account and deposit 100% of their direct payments each year.

Price projections for the H.R. 2419 and FFFP Amendment scenarios were developed by FAPRI based on the program provisions reported for both policies. Both of the FFFP Amendment scenarios use the same price projections. The representative farm policy analysis incorporates the payment limitation provisions in the two farm programs, which is not possible in the sector level analysis by FAPRI.

The provisions in H.R. 2419 and the FFFP Amendment that directly affect the representative farm analysis are summarized in Tables 1 and 2. Table 1 shows the proposed direct payment rates for both H.R. 2419 and the FFFP Amendment. The direct payment rates are constant each year for the H.R. 2419 bill while the rates change from year-to-year and decrease over the period for the FFFP Amendment. Table 2 summarizes the loan rates, target prices, and national target revenues for the two policies. Under H.R. 2419 loan rates are fixed while for the FFFP Amendment, loan rates are based on 85% of an Olympic moving average of national average prices and a maximum loan rate.

Under H.R. 2419 producers would be given a one time choice to receive counter cyclical payments (CCP) or counter cyclical revenue (CCR) payments. The CCP payments would be calculated as they have been under the 2002 farm bill. The CCR payments would pay eligible production for the difference between the national target revenue and the actual national revenue divided by national CCP payment yields. The FFFP Amendment provides producers a CCR program. The CCR is calculated using a formula similar to that found in H.R. 2419 but different national target revenues are used (Table 2).

The H.R. 2419 bill calls for tighter payment limitations, depending largely on direct attribution of payments to a natural person to make payment limitations more effective. The bill also has lower payment limits than the 2002 farm bill: DP limit is \$60,000 and CCP limit is \$65,000. Producers who have adjusted gross incomes of more than \$1 million are not eligible to receive any payments.

Payment limitations in the FFFP Amendment specify a limit per person and up to double that for a farmer and spouse for a total of \$40,000 for DP, \$60,000 for CCP, and \$150,000 for MLG per farm. Producers with more than \$250,000 of adjusted gross income are ineligible for all government payments under the FFFP Amendment.

The FFFP Amendment includes provisions for a voluntary risk management account. Farmers can voluntarily deposit up to 100% of their direct payments in a risk management account each year. For each dollar deposited the Secretary of Agriculture will add 5 cents to the producers account. Producers can withdraw the funds if their adjusted gross revenue (AGR) falls more than 5% from their five year average, to purchase crop or revenue insurance, to meet severe cash flow deficits, or upon retirement. The AGR is the sum of cash receipts generated from crops, livestock and forestry, plus government payments and insurance indemnities, less the basis in purchased livestock for sale.

The payment limitations and risk management account provisions described above are incorporated into the representative farm analysis. The CCR option was analyzed for H.R. 2419 as this is the option analyzed by FAPRI.

Results

The results of analyzing the two FFFP Amendment scenarios and the H.R. 2419 bill are summarized in Table 3 for 38 representative farms. Results for the crop farms indicate that the

H.R. 2419 bill will likely have higher average annual cash receipts and average annual net cash farm incomes than either of the two FFFP Amendment scenarios. For feed grain farms, the FFFP Amendment without the risk management account (RMA) reduced cash receipts 1.8% to 5.5% and the FFFP Amendment with an RMA reduced receipts 3.4% to 8.3%. Wheat farm cash receipts would decrease slightly from the H.R. 2419 bill to the FFFP Amendment. However, rice and cotton farms will likely see larger percentage decreases in average annual cash receipts than feed grain farms under the FFFP Amendment scenarios.

Average annual net cash farm income for crop farms will likely be much greater under the H.R. 2419 bill than either of the FFFP Amendment scenarios. The feed grain farms reported in Table 3 would likely see average annual net cash farm incomes 6% to 114% lower under the FFFP without an RMA and 8% to 152% lower for the FFFP with an RMA, than under the H.R. 2419 bill. Wheat, cotton and rice farms also would experience lower average net cash farm incomes under the FFFP Amendment scenarios relative to the H.R. 2419 bill. The crop farms would prefer to not participate in the voluntary RMA program, as it reduces cash receipts and net cash income without providing an adequate safety net in low receipt years.

Dairy farms and beef cattle ranches are expected to be indifferent between H.R. 2419 and the FFFP Amendment without an RMA because of the small impacts on average annual cash receipts. The results for the FFFP Amendment without an RMA on net cash farm income are mixed for dairy farms, with half likely to see small decreases and the other half likely to see increases relative to the H.R. 2419 bill. Like crop farms, the dairy farms would prefer to not participate in the voluntary RMA program, as it reduces cash receipts and net cash income without providing an adequate safety net in low receipt years.

Summary

The results of analyzing the H.R. 2419 bill and the FFFP Amendment to H.R. 2419 indicate that the Amendment would likely result in lower cash receipts and net cash farm incomes for program crop farmers, with cotton, rice, and feed grain farms suffering the most. The overall economic viability of many crop and some dairy farms would likely be reduced by the provisions in the FFFP Amendment, relative the H.R. 2419.

Table 1. Proposed Direct Payment Rates for H.R. 2419 and the FFFP Amendment, 2008-2012

	HR 2419 2008-20012	2008	2009	Kind Amendment 2010	2011	2012
Corn (\$/bu.)	0.28	0.14	0.13	0.11	0.10	0.08
Wheat (\$/bu.)	0.52	0.52	0.52	0.52	0.49	0.47
Cotton (\$/lb.)	0.0667	0.05	0.04	0.04	0.04	0.03
Grain Sorghum (\$/bu.)	0.35	0.25	0.23	0.21	0.35	0.18
Soybeans (\$/bu.)	0.44	0.22	0.20	0.18	0.15	0.13
Barley (\$/bu.)	0.24	0.17	0.16	0.14	0.13	0.12
Oats (\$/bu.)	0.024	0.02	0.02	0.02	0.02	0.02
Rice (\$/cwt.)	2.35	1.65	1.53	1.41	1.29	1.18
Peanuts (\$/ton)	36.00	25.20	23.40	21.60	19.80	18.00

Table 2. Proposed Loan Rates and Target Prices and Revenues for H.R. 2419 and the FFFP Amendment.

	Loan Rate		H.R. 2419			FFFP	
	H.R. 2419	FFFP (maximum)	Target Prices	Target Revenue (\$/ac)	Payment Yield (units/ac)	Target Revenue (\$/ac)	Payment Yield (units/ac)
Corn (\$/bu.)	1.95	1.89	2.63	344.12	114.40	344.12	114.20
Wheat (\$/bu.)	2.94	2.58	4.15	149.92	36.10	140.42	36.10
Cotton (\$/lb.)	0.5200	0.5192	0.7000	496.93	634.00	516.86	636.00
Grain Sorghum (\$/bu.)	1.95	1.89	2.57	131.28	58.20	131.28	58.10
Soybeans (\$/bu.)	5.00	4.92	6.10	231.87	34.10	219.58	34.10
Barley (\$/bu.)	2.50	1.70	2.73	153.30	48.60	123.13	48.70
Oats (\$/bu.)	1.46	1.21	1.50	92.10	49.80	88.36	49.80
Rice (\$/cwt.)	6.50	6.50	10.50	548.06	51.28	548.06	51.24
Peanuts (\$/ton)	355	350	495	683.83	1.496	683.83	1.495

Calculation:

FFFP Amendment Loan Rate = max (Loan Rate or 0.85 * (Olympic National Average for previous 5 years))

The National Payment Rate formula is the same for both policies:

$$\text{NPR} = (\text{National Target Revenue } (\$/\text{ac}) - \text{National Average Revenue } (\$/\text{ac})) / \text{National Payment Yield}$$

Table 3. Average Annual Cash Receipts and Average Annual Net Cash Farm Incomes for Representative Farms Under the House Agriculture Committee's Farm Bill (H.R. 2419) and the Fairness in Farm and Food Policy (FFFP) Amendment to H.R. 2419.

	Average Annual Total Cash Receipts					Average Annual Net Cash Farm Income				
	H.R. 2419	FFFP No RMA		FFFP With RMA		H.R. 2419	FFFP No RMA		FFFP With RMA	
	Bill	\$ Change	% Change	\$ Change	% Change	Bill	\$ Change	% Change	\$ Change	% Change
	(\$1000)	(\$1000)	(%)	(\$1000)	(%)	(\$1000)	(\$1000)	(%)	(\$1000)	(%)
Feed Grain Farms										
IAG1350	648.484	-15.1	-2.3	-28.0	-4.3	187.466	-15.5	-8.3	-29.8	-15.9
NEG1960	1213.229	-33.2	-2.7	-50.4	-4.2	370.681	-34.2	-9.2	-54.2	-14.6
MOCG2050	801.975	-23.4	-2.9	-32.4	-4.0	402.171	-23.5	-5.8	-32.8	-8.1
TNG900	323.346	-5.7	-1.8	-10.9	-3.4	41.716	-6.4	-15.2	-13.8	-33.0
SCG1500	893.777	-49.0	-5.5	-73.8	-8.3	225.888	-52.7	-23.3	-77.3	-34.2
ING1000	431.59	-9.8	-2.3	-20.3	-4.7	104.161	-10.5	-10.1	-23.1	-22.2
TXPG3760	2559.275	-88.5	-3.5	-122.2	-4.8	97.103	-111.1	-114.4	-147.6	-152.0
Wheat farms										
WAW1725	440.813	-1.3	-0.3	-32.8	-7.4	71.845	-1.5	-2.0	-40.1	-55.8
NDG2180	545.752	-6.3	-1.2	-23.8	-4.4	192.686	-6.5	-3.3	-25.4	-13.2
KSNW2800	400.438	-4.4	-1.1	-27.5	-6.9	73.229	-4.8	-6.6	-32.6	-44.6
COW3000	313.079	-2.1	-0.7	-15.4	-4.9	161.013	-2.1	-1.3	-15.4	-9.6
MTW4500	450.261	-10.4	-2.3	-45.5	-10.1	192.814	-10.4	-5.4	-46.0	-23.9
ORW4000	328.277	-0.6	-0.2	-26.6	-8.1	111.469	-0.7	-0.6	-30.2	-27.1
Cotton Farms										
CAC4000	6204.273	-101.3	-1.6	-140.0	-2.3	391.418	-123.2	-31.5	-153.7	-39.3
TXSP2239	592.472	-22.1	-3.7	-37.7	-6.4	-13.436	-28.8	-214.5	-47.2	-351.6
TXMC1800	694.975	-20.4	-2.9	-43.4	-6.2	91.076	-26.0	-28.5	-53.4	-58.6
GAC2300	1903.62	-153.6	-8.1	-183.6	-9.6	265.277	-174.4	-65.7	-208.4	-78.6
TNC1900	982.257	-38.5	-3.9	-49.3	-5.0	309.49	-42.3	-13.7	-50.6	-16.4
ARC6000	3125.909	-178.2	-5.7	-225.9	-7.2	-357.333	-218.5	-61.1	-280.6	-78.5
ALC3000	1233.462	-102.7	-8.3	-132.0	-10.7	8.603	-124.6	-1448.7	-156.6	-1820.2
NCC1100	582.709	-15.2	-2.6	-28.1	-4.8	-62.813	-20.3	-32.4	-35.8	-57.1
Rice Farms										
CACR715	603.089	-47.7	-7.9	-84.4	-14.0	-379.064	-55.8	-14.7	-105.6	-27.9
TXR1350	367.358	-20.4	-5.6	-52.1	-14.2	-77.023	-23.5	-30.5	-65.8	-85.5
ARSR3640	1138.207	-86.0	-7.6	-121.0	-10.6	102.992	-98.4	-95.5	-148.8	-144.5
MOWR4000	1812.273	-109.5	-6.0	-139.2	-7.7	226.955	-125.0	-55.1	-169.9	-74.9
Dairy farms										
CAD1710	5742.65	-3.1	-0.1	-21.1	-0.4	439.777	-4.9	-1.1	-22.3	-5.1
NMD2125	7071.589	11.9	0.2	-3.6	-0.1	930.742	11.6	1.2	-3.8	-0.4
WAD250	885.627	0.9	0.1	-4.9	-0.6	116.195	1.2	1.0	-6.0	-5.1
IDD1000	3641.795	5.9	0.2	-3.6	-0.1	91.525	5.6	6.1	-4.1	-4.5
TXED1000	3157.293	5.3	0.2	-3.6	-0.1	-70.485	5.0	7.0	-4.9	-7.0
WID775	3133.774	-4.2	-0.1	-12.7	-0.4	740.247	-3.9	-0.5	-13.1	-1.8
NYCD110	491.965	-1.0	-0.2	-7.0	-1.4	149.787	-1.0	-0.7	-7.4	-4.9
VTD140	603.63	-1.1	-0.2	-7.5	-1.2	102.608	-1.1	-1.1	-9.0	-8.8
Beef Cattle Ranches										
MTB500	243.778	0.0	0.0	0.0	0.0	46.923	0.1	0.1	0.0	0.0
COB250	180.735	0.0	0.0	0.0	0.0	9.702	0.0	-0.4	0.0	0.0
CAB500	272.793	0.0	0.0	0.0	0.0	-70.137	0.1	0.1	0.0	0.0
SDB450	244.379	0.0	0.0	0.0	0.0	17.405	0.0	-0.1	0.0	-0.1
TXRB500	415.271	0.0	0.0	0.0	0.0	138.563	0.0	0.0	0.0	0.0

H.R. 2419 refers to House Agriculture Committee farm bill "Farm, Nutrition and Bioenergy Act of 2007".

FFFP No RMA refers to the "Fairness in Farm and Food Policy" Amendment to H.R. 2419, without a risk management account.

FFFP With RMA refers to the "Fairness in Farm and Food Policy" Amendment to H.R. 2419, with a risk management account.

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