

Impacts

of Commodity and
Conservation Reserve
Program Provisions in

House and Senate
Reconciliation
Bills

Prepared by the Food and Agricultural Policy Research Institute

101 Park DeVill Drive, Suite E
Columbia, Missouri 65203
573-882-3576
www.fapri.missouri.edu

FAPRI
At the University of Missouri
Food and Agricultural
Policy Research Institute

House and Senate reconciliation bills include a number of provisions that would affect the operation of commodity programs and the Conservation Reserve Program (CRP). The tables report estimates of possible impacts of these provisions for commodity markets, government farm program outlays, producer returns, and net farm income.

1. A Senate provision would reduce direct and counter-cyclical payments and loan program benefits by 2.5% for the 2006-2010 crops. Estimated impacts include:
 - A \$1.5 billion reduction in total government farm program outlays for fiscal years (FY) 2006-2010, and a \$1.1 billion reduction in net farm income for calendar years (CY) 2006-2010.
 - Slight reductions in acreage planted and slight increases in market prices for most major crops. All estimated acreage and price impacts are less than 0.4%.
2. A House provision would reduce direct payments by 1% for the 2006-2009 crops. The provisions would reduce total estimated farm program outlays by \$218 million for FY 2006-2010, and net farm income by a total of \$138 million for CY 2006-2010. Commodity market impacts would be negligible.
3. Both the House and Senate propose to eliminate the cotton Step 2 program at the end of the 2005/06 marketing year. Estimated impacts include:
 - A 1.3 cent per pound average reduction in farm prices for cotton, coupled with a 0.4 cent per pound average increase in world cotton prices.
 - Reduced cotton marketing loan expenditures and increased cotton counter-cyclical payments.
 - A 1.5% average reduction in cotton area planted and small increases in area planted to other crops.
 - A \$700 million net reduction in government outlays over FY 2006-2010, and a \$417 million reduction in net farm income over CY 2006-2010.
4. A Senate provision would limit CRP area to 36.4 million acres between 2006 and 2010, and to 38.3 million acres in subsequent years. Relative to January 2005 baseline estimates, this would result in:
 - Increases in area planted to program crops that are much smaller than the reduction in CRP area.
 - Modest reductions (less than 0.2%) in crop prices in response to the increase in production.
 - Increases in counter-cyclical payments and loan program benefits that offset savings on CRP establishment and rental payments, leaving total government outlays essentially unchanged over FY 2006-2010.
 - A slight reduction in net farm income, as the effects of lower commodity prices and increased crop production costs more than offset the impact of increased crop production.

5. A Senate provision would extend the Milk Income Loss Contract (MILC) program for two years, but reduce the current 45% payment factor to 34% and make an additional 2.5% cut in payments. Estimated impacts include:
 - An increase in milk production that results in lower milk prices. The average decline in all-milk prices over CY 2006-2010 is \$0.07 per hundredweight.
 - A \$0.46 per hundredweight average MILC payment rate on eligible production in 2006-2007.
 - An overall increase in government outlays of slightly over \$1.0 billion over FY 2006-2010. MILC payments account for most of the spending increase, but net dairy product purchases also increase slightly.
 - Net farm income increases by a total of \$302 million over CY 2006-2010, as increased MILC payments and milk production are partially offset by lower milk prices and additional production costs.
6. A Senate provision would impose a penalty when producers forfeit 2006-2010 sugar placed under loan. The provision would slightly reduce the net government cost of the sugar program, assuming some modest sugar forfeitures for the 2008-2010 crops. The impact of this provision is contingent on the supply-demand balance in the sugar industry and the resulting likelihood of loan forfeitures.
7. A House provision would reduce the maximum advanced direct payment from the current 50% to 40% beginning with the 2006 crop. By shifting 10% of direct payments between fiscal years, this would have the effect of reducing FY 2006 net government outlays by \$526 million (considering the impact in conjunction with the 1% reduction in direct payments). Calendar year net farm income would be slightly reduced in 2005 (because fewer 2006 crop year payments would be made in December 2005), but largely unaffected in subsequent years.
8. A similar Senate provision would reduce the maximum advanced direct payment to 40% in 2006 and 29% in subsequent years. This would reduce government outlays during FY 2006-2007 by about \$1.1 billion (considering the impact in conjunction with the 2.5% reduction in payments). Calendar year net farm income would be slightly reduced in 2005 and 2006 because of the shift in the timing of payments.

All estimates reported here represent averages of 500 stochastic outcomes relative to FAPRI's stochastic baseline prepared in early 2005. The averages sometimes mask important differences across outcomes. For example, the absolute change in loan program benefits and counter-cyclical payments resulting from the 2.5% reduction in payments would be much larger when baseline prices are below average than when baseline prices are above average. Step 2 elimination effects on marketing loan and counter-cyclical payments are also dependent on baseline market prices.

The tables report estimates only for the commodity and CRP provisions of the House and Senate bills. Other provisions, such as some of the conservation provisions in both bills, may also have implications for commodity markets and net farm income, but they are beyond the scope of this analysis.

Estimated Impacts of Commodity and CRP Provisions

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2006-10 Total |
|--|------|------|------|------|------|------|------|------------------|
| Government outlays (million dollars, fiscal year) | | | | | | | | |
| 1. Reduce crop payments 2.5% (S) | -119 | -372 | -356 | -360 | -339 | -220 | -30 | -1,547 |
| 2. Reduce direct payments 1% (H) | -27 | -54 | -54 | -54 | -28 | 0 | 0 | -218 |
| 3. Eliminate Step 2 (H,S) | 0 | -199 | -192 | -161 | -148 | -160 | -179 | -700 |
| 4. Impose CRP acreage limit (S) | -1 | -11 | -9 | 17 | 5 | 10 | 56 | 0 |
| 5. Extend MILC, reduce payment rate (S) | 413 | 536 | 66 | 10 | 14 | 10 | 3 | 1,039 |
| 6. Impose sugar forfeiture penalty (S) | 0 | -1 | 0 | -23 | -16 | -14 | 13 | -41 |
| 7. Reduce direct advance to 40% (H) | -526 | 0 | 0 | 0 | -5 | 0 | 0 | -531 |
| 8. Reduce direct advance to 29% (S) | -518 | -569 | 0 | 0 | 0 | -27 | 0 | -1,087 |
| Net farm income (million dollars, calendar year) | | | | | | | | |
| 1. Reduce crop payments 2.5% (S) | -229 | -246 | -239 | -209 | -177 | -36 | 82 | -1,101 |
| 2. Reduce direct payments 1% (H) | -47 | -39 | -36 | -29 | 14 | 6 | 3 | -138 |
| 3. Eliminate Step 2 (H,S) | -90 | -125 | -66 | -65 | -70 | -77 | -76 | -417 |
| 4. Impose CRP acreage limit (S) | -14 | -8 | -27 | -37 | -32 | -26 | -65 | -119 |
| 5. Extend MILC, reduce payment rate (S) | 284 | 338 | -137 | -104 | -80 | -49 | -33 | 302 |
| 6. Impose sugar forfeiture penalty (S) | 0 | 0 | -8 | -2 | -4 | 8 | -1 | -13 |
| 7. Reduce direct advance to 40% (H)* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8. Reduce direct advance to 29% (S)* | -40 | 0 | 0 | 0 | -2 | 0 | 0 | -42 |

* Limiting 2006 advance direct payments to 40% of the total would reduce net farm income in calendar year 2005 by approximately \$36 million.

Explanatory notes

1. The Senate provision would reduce all direct and countercyclical payments and marketing loan benefits by 2.5% for the 2006-2010 crops.
2. The House provision would reduce direct payments by 1% for the 2006-2009 crops.
3. The House and Senate provisions would eliminate the cotton Step 2 program at the end of the 2005/06 crop year.
4. The Senate provision would limit CRP acreage to 36.4 million acres for 2006-2010, and to 38.3 million acres in subsequent years.
5. The Senate provision would extend the dairy MILC program for two years, but reduce the proportion eligible for payments from 45% to 34% and make an additional 2.5% reduction in payments.
6. The Senate provision would impose a 1.2% penalty on forfeitures of sugar loans for 2006-2010 crops.
7. The House provision would limit advanced direct payments to 40% of the total beginning with the 2006 crop. Estimates include interaction with 1% direct payment reduction.
8. The Senate provision would limit advanced direct payments to 40% of the total for the 2006 crop, and 29% beginning in 2007. Estimates include interaction with the 2.5% reduction in payments.

Crop Acreage Impacts

| | 1. Reduce crop payments 2.5% (S) | 2. Reduce direct payments 1% (H) | 3. Eliminate Step 2 Program (H, S) | 4. Limit CRP Acreage (S) |
|---|---|---|---|-----------------------------------|
| (change from baseline, 2006-2010 average) | | | | |
| Corn | -0.01% | 0.00% | 0.03% | 0.07% |
| Soybeans | -0.01% | 0.00% | 0.06% | 0.08% |
| Wheat | 0.00% | -0.01% | 0.09% | 0.17% |
| Sorghum | -0.05% | -0.01% | 0.40% | 0.17% |
| Barley | -0.08% | -0.01% | 0.00% | 0.23% |
| Oats | -0.08% | -0.01% | 0.01% | 0.13% |
| Rice | -0.17% | 0.00% | 0.08% | 0.01% |
| Peanuts | -0.06% | 0.00% | 0.07% | 0.11% |
| Sunflowers | -0.01% | -0.01% | 0.02% | 0.18% |
| Upland cotton | -0.38% | 0.00% | -1.50% | 0.15% |
| 10 major crops | -0.03% | 0.00% | -0.02% | 0.11% |
| Hay area harvested | 0.01% | 0.00% | 0.00% | 0.04% |
| 10 major crops + hay | -0.03% | 0.00% | -0.01% | 0.10% |
| Conservation reserve | 0.00% | 0.00% | 0.00% | -2.42% |
| 10 crops, hay, and CRP | -0.02% | 0.00% | -0.01% | -0.17% |

Crop Price Impacts

| | 1. Reduce crop payments 2.5% (S) | 2. Reduce direct payments 1% (H) | 3. Eliminate Step 2 Program (H, S) | 4. Limit CRP Acreage (S) |
|---|---|---|---|-----------------------------------|
| (change from baseline, 2006-2010 average) | | | | |
| Corn | 0.02% | 0.00% | -0.08% | -0.14% |
| Soybeans | 0.00% | 0.00% | -0.07% | -0.17% |
| Wheat | 0.02% | 0.00% | -0.08% | -0.14% |
| Sorghum | 0.03% | 0.00% | -0.16% | -0.16% |
| Barley | 0.03% | 0.00% | -0.05% | -0.16% |
| Oats | 0.05% | 0.01% | -0.06% | -0.17% |
| Rice | 0.16% | 0.00% | -0.08% | -0.01% |
| Peanuts | 0.13% | 0.00% | -0.15% | -0.20% |
| Sunflowers | 0.02% | 0.00% | 0.00% | -0.14% |
| Upland Cotton | 0.20% | 0.00% | -2.68% | -0.08% |
| Hay | -0.03% | 0.00% | -0.03% | -0.12% |

Crop Gross Return per Acre Impacts

| | 1. Reduce crop payments 2.5% (S) | 2. Reduce direct payments 1% (H) | 3. Eliminate Step 2 Program (H, S) | 4. Limit CRP Acreage (S) |
|---|---|---|---|-----------------------------------|
| Corn (change from baseline, 2006-2010 average) | | | | |
| Market returns/acre | \$0.07 | \$0.01 | -\$0.26 | -\$0.49 |
| Loan benefits/acre | -\$0.49 | \$0.00 | \$0.11 | \$0.22 |
| CCP/base acre | -\$0.46 | \$0.00 | \$0.07 | \$0.14 |
| Direct paym'ts/base a. | -\$0.61 | -\$0.19 | \$0.00 | \$0.00 |
| Gross return/base a. | -\$1.49 | -\$0.19 | -\$0.08 | -\$0.13 |
| Soybeans | | | | |
| Market returns/acre | \$0.02 | \$0.01 | -\$0.16 | -\$0.37 |
| Loan benefits/acre | -\$0.39 | \$0.00 | \$0.07 | \$0.18 |
| CCP/base acre | -\$0.13 | \$0.00 | \$0.02 | \$0.04 |
| Direct paym'ts/base a. | -\$0.29 | -\$0.09 | \$0.00 | \$0.00 |
| Gross return/base a. | -\$0.79 | -\$0.09 | -\$0.07 | -\$0.15 |
| Wheat | | | | |
| Market returns/acre | \$0.02 | \$0.01 | -\$0.11 | -\$0.20 |
| Loan benefits/acre | -\$0.07 | \$0.00 | \$0.02 | \$0.04 |
| CCP/base acre | -\$0.15 | \$0.00 | \$0.03 | \$0.06 |
| Direct paym'ts/base a. | -\$0.38 | -\$0.12 | \$0.00 | \$0.00 |
| Gross return/base a. | -\$0.57 | -\$0.12 | -\$0.05 | -\$0.09 |
| Upland cotton | | | | |
| Market returns/acre | \$0.67 | \$0.00 | -\$8.94 | -\$0.28 |
| Loan benefits/acre | -\$2.34 | \$0.00 | -\$2.25 | \$0.20 |
| CCP/base acre | -\$1.80 | \$0.00 | \$2.30 | \$0.06 |
| Direct paym'ts/base a. | -\$0.86 | -\$0.27 | \$0.00 | \$0.00 |
| Gross return/base a. | -\$4.33 | -\$0.27 | -\$8.89 | -\$0.03 |
| Rice | | | | |
| Market returns/acre | \$0.84 | \$0.01 | -\$0.41 | -\$0.05 |
| Loan benefits/acre | -\$2.15 | \$0.00 | \$0.08 | \$0.02 |
| CCP/base acre | -\$1.04 | \$0.00 | \$0.08 | \$0.01 |
| Direct paym'ts/base a. | -\$2.40 | -\$0.77 | \$0.00 | \$0.00 |
| Gross return/base a. | -\$4.76 | -\$0.77 | -\$0.25 | -\$0.03 |
| Peanuts | | | | |
| Market returns/acre | \$0.74 | \$0.01 | -\$0.86 | -\$1.18 |
| Loan benefits/acre | -\$1.43 | -\$0.01 | \$0.47 | \$0.68 |
| CCP/base acre | -\$2.39 | -\$0.01 | \$0.46 | \$0.62 |
| Direct paym'ts/base a. | -\$1.14 | -\$0.37 | \$0.00 | \$0.00 |
| Gross return/base a. | -\$4.22 | -\$0.37 | \$0.08 | \$0.12 |

Impacts of Step 2 Elimination on Upland Cotton

| Crop year | 06/07 | 07/08 | 08/09 | 09/10 | 10/11 | 11/12 | 12/13 | 2006-10 Average |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|--------------------|
| Area | | | | | | | | |
| | | | | | | | | (million acres) |
| Planted area | 0.00 | -0.28 | -0.26 | -0.23 | -0.23 | -0.25 | -0.28 | -0.20 |
| Harvested area | 0.00 | -0.25 | -0.24 | -0.21 | -0.21 | -0.22 | -0.25 | -0.18 |
| | | | | | | | | (million bales) |
| Supply | 0.00 | -0.17 | -0.19 | -0.16 | -0.15 | -0.16 | -0.18 | -0.14 |
| Beginning stocks | 0.00 | 0.20 | 0.16 | 0.15 | 0.16 | 0.18 | 0.21 | 0.14 |
| Production | 0.00 | -0.37 | -0.35 | -0.32 | -0.31 | -0.34 | -0.39 | -0.27 |
| Imports | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Domestic use | | | | | | | | |
| Mill use | -0.01 | -0.02 | -0.02 | -0.02 | -0.02 | -0.02 | -0.03 | -0.02 |
| Exports | -0.19 | -0.31 | -0.32 | -0.30 | -0.31 | -0.35 | -0.37 | -0.29 |
| Total use | -0.20 | -0.33 | -0.34 | -0.33 | -0.34 | -0.37 | -0.40 | -0.31 |
| Ending stocks | 0.20 | 0.16 | 0.15 | 0.16 | 0.18 | 0.21 | 0.22 | 0.17 |
| Prices | | | | | | | | (cents) |
| Farm price/lb. | -1.27 | -1.17 | -1.15 | -1.26 | -1.45 | -1.66 | -1.75 | -1.26 |
| Market price/lb. | -1.73 | -1.59 | -1.57 | -1.71 | -1.98 | -2.25 | -2.37 | -1.72 |
| Step 2 payment/lb. | -2.37 | -2.40 | -2.27 | -2.36 | -2.69 | -3.06 | -3.24 | -2.42 |
| Price paid by U.S. mills/lb. | 0.63 | 0.81 | 0.71 | 0.65 | 0.71 | 0.81 | 0.86 | 0.70 |
| Cotlook A Index/lb. | 0.41 | 0.50 | 0.38 | 0.31 | 0.34 | 0.40 | 0.43 | 0.39 |
| Adjusted world price/lb. | 0.41 | 0.50 | 0.38 | 0.31 | 0.34 | 0.40 | 0.43 | 0.39 |

Dairy Sector Results, 2006-2010

| | 34% MILC Extension | | <u>Change from Baseline</u> | |
|-------------------------------|---------------------------------------|-------------|-----------------------------|---------|
| | Baseline | w/ 2.5% cut | Absolute | Percent |
| Milk supply and prices | (billion lbs., 2006-2010 avg.) | | | |
| Production | 180.43 | 180.73 | 0.29 | 0.2% |
| | (dollars/cwt, 2006-2010 avg.) | | | |
| All milk price | 13.29 | 13.22 | -0.07 | -0.6% |
| MILC payment rate* | 0.00 | 0.19 | 0.19 | n.a. |
| CCC outlays | (million dollars, FY 2006-2010 total) | | | |
| MILC program | 49 | 1,017 | 968 | 1973.3% |
| Other dairy | 1,185 | 1,264 | 79 | 6.7% |
| Total dairy | 1,234 | 2,281 | 1,047 | 84.8% |
| Other net CCC | 92,142 | 92,135 | -8 | 0.0% |
| Total net CCC outlays | 93,376 | 94,415 | 1,039 | 1.1% |
| Farm income | (million dollars, 2006-2010 total) | | | |
| Dairy cash receipts | 119,666 | 119,192 | -474 | -0.4% |
| Other livestock receipts | 430,089 | 430,013 | -76 | 0.0% |
| Crop receipts | 565,767 | 565,775 | 9 | 0.0% |
| Government payments | 91,533 | 92,501 | 968 | 1.1% |
| Sum of above | 1,207,056 | 1,207,482 | 426 | 0.0% |
| Total production costs | 1,108,740 | 1,108,861 | 121 | 0.0% |
| Other net farm income | 167,836 | 167,832 | -4 | 0.0% |
| Net farm income | 266,151 | 266,453 | 302 | 0.1% |

*Payment rate on eligible production. Average payment rate on eligible production in 2006 and 2007 is \$0.46 per hundredweight.