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Impacts of Changes in Direct Payment Rates, Target Prices and Loan Rates

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Table of Contents

Summary

Proposals for the 2007 farm bill commodity title range from modest changes to current farm programs to policies that would represent a more radical departure from the status quo. This report examines several proposals that would maintain the current structure of farm programs, but adjust direct payment rates, target prices and loan rates.

The point of comparison for the analysis is the stochastic baseline for US commodity markets prepared by the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri–Columbia (MU) in early 2007. The FAPRI baseline assumes a continuation of 2002 farm bill provisions and a continuation of current measures to support the biofuel industry.

Seven scenarios are compared to the FAPRI baseline. The first six change direct payment rates, target prices, and/or loan rates for a single commodity, holding all other program provisions at baseline levels. The seventh scenario, based on a proposal by the American Soybean Association, changes target prices and loan rates for a number of commodities simultaneously.

Results are summarized by presenting average results across 500 stochastic outcomes for a five-year period (2008-2012). Results include the following:

- The proposals all involve increasing support levels. All of them would increase government farm program outlays and net farm income.

- Because loan program benefits are tied to current production levels, while direct and countercyclical payments do not require current production, a given increase in government expenditures will tend to raise production more if provided through the loan program as opposed to less coupled alternatives.

- Changes in net farm income under each of the scenarios are smaller than the changes in government farm program outlays. One reason is that land rental payments increase when government payments increase, so that a portion of the new program benefits flow to nonoperator landlords, rather than to the producers whose income is measured by net farm income statistics.

The wheat scenario results summarize work included in FAPRI Report #08-07 *Impacts of a National Association of Wheat Growers Proposal for the 2007 Farm Bill* (http://www.fapri.missouri.edu/outreach/publications/2007/FAPRI_UMC_Report_08_07.pdf). Assumptions for the final scenario are based on the document *American Soybean Association Proposals for the 2007 Farm Bill*, dated February 9, 2007. Assumptions for the other scenarios are based on testimony from producer groups before the US Senate Committee on Agriculture, Nutrition, and Forestry on April 25, 2007. Only the effects of proposed changes in direct payment rates, target prices and loan rates are examined. Other proposals by the various groups are not considered in this report.

Introduction

Commodity groups and others have made a wide range of proposals to change the commodity title of the 2007 farm bill. This report focuses on proposals that would change direct payment rates, target prices and loan rates without making other changes in farm program provisions.

Under current law, direct payments are made to producers with base acreage. Direct payments are equal to the direct payment rate per unit, multiplied by a fixed program yield, multiplied by base acreage, multiplied by the factor 0.85. Direct payments do not depend on current production levels, and are proportional to direct payment rates.

Countercyclical payments also are made on a fixed quantity that depends on base acreage and a program yield, rather than actual production. Payments are made when the national season-average farm price falls below the target price minus the direct payment rate, and cannot exceed the target price minus the direct payment rate, minus the loan rate. Increases in target prices and reductions in loan rates, direct payment rates, or market prices can increase countercyclical payment rates.

Marketing loan benefits are available when a market price indicator (posted county price or adjusted world price, depending on the commodity) falls below the loan rate. Loan program benefits are available on all production, and so are very "coupled" to production choices.

Seven scenarios are examined. Based on commodity group proposals, the scenarios assume increases in:

1) Wheat direct payment rates and target prices,
2) Soybean target prices and loan rates,
3) Peanut direct payment rates, target prices, and loan rates,
4) Barley direct payment rates, target prices, and loan rates,
5) Rice target prices and loan rates,
6) Minor oilseed target prices and loan rates, and
7) Target prices and loan rates for a number of commodities.

The point of comparison for the analysis is the FAPRI stochastic baseline prepared in January and February 2007, and based on information available in mid-January. The stochastic baseline consists of 500 sets of alternative agricultural market outcomes for the period from 2007 to 2016. These 500 alternative outcomes share a common assumption that provisions of the 2002 farm bill that are currently scheduled to be expire in 2007 will instead be extended indefinitely, and that biofuel support measures will also be maintained. The outcomes differ from one another in assumptions about the weather, petroleum prices, and other factors that affect agricultural commodity supply and demand. More detail on the 2007 FAPRI stochastic baseline can be found in the "FAPRI U.S. Baseline Briefing Book" on the FAPRI website, www.fapri.missouri.edu.

For each scenario, changes in direct payment rates, target prices, and/or loan rates are made effective with the 2008/09 marketing year, but all other assumptions are the same as in the stochastic baseline. Results are summarized in Tables 1-7, which provide average results for the baseline and each scenario across the 500 outcomes for the 2008-2012.

Changes in Wheat Program Provisions

The National Association of Wheat Growers (NAWG) has proposed an increase in the wheat direct payment rate and the wheat target price. Effective with the 2008/09 crop, the direct payment rate is increased from the current $0.52 per bushel to $1.19 per bushel, and the target price is increased from $3.92 per bushel to $5.29 per bushel.

In response to a request from several members of Congress, FAPRI has estimated impacts of adopting the NAWG proposal (FAPRI Report #08-07). A summary of results from the earlier report is presented in Table 1. Results include the following:

- The increase in wheat direct payments and the potential for larger wheat countercyclical payments results in a small increase in wheat production.

- The estimated effects on production are small because direct and countercyclical payments are tied to fixed base acreages and program yields, rather than current production levels.

- Annual direct payments increase by almost $20 per base acre relative to the current-policy baseline.

- The effect on countercyclical payments depends on market prices. Across 500 stochastic outcomes, the average annual increase in countercyclical payments is $4.48 per base acre.

- Net government spending by the Commodity Credit Corporation (CCC) increases by a total of $7.6 billion over fiscal years 2008-2012 and by $16.5 billion over fiscal years 2008-2017.

- The increase in government payments is partially offset by increases in rental payments to nonoperator landlords and other costs of production.

- Net farm income increases by a total of $6.0 billion over calendar years 2008-2012.

Table 1. Effects of Changes in Wheat Program Provisions

	Baseline	Higher Wheat Target Price and Direct Payment	Absolute Difference	Percentage Difference
Wheat Program Provisions	(Dollars per Bushel, 2008/09 - 2012/13 Average)			
Wheat Direct Payment Rate	0.52	1.19	0.67	128.8%
Wheat Target Price	3.92	5.29	1.37	34.9%
Wheat Loan Rate	2.75	2.75	0.00	0.0%
Wheat Sector Supply and Use	(Million Bushels, 2008/09 - 2012/13 Average)			
Wheat Production	2,125	2,135	9	0.4%
Wheat Domestic Use	1,283	1,284	2	0.1%
Wheat Exports	944	951	7	0.7%
Crop Planted Acreage	(Million Acres, 2008/09 - 2012/13 Average)			
Wheat	57.92	58.18	0.26	0.4%
11 Other Crops Plus Hay	257.35	257.38	0.04	0.0%
Conservation Reserve Area	32.69	32.67	-0.01	0.0%
12 Crops + Hay + CRP	347.95	348.23	0.28	0.1%
Wheat Prices, Receipts, Payments	(Dollars, 2008/09 - 2012/13 Average)			
Farm Price/Bushel	4.13	4.13	-0.01	-0.2%
Market + Loan Benefits/Acre	177.44	177.11	-0.33	-0.2%
Market Value/Acre	177.41	177.08	-0.33	-0.2%
Marketing Loan Benefits/Acre	0.03	0.03	0.00	12.6%
CCP + DP/Base Acre	15.36	39.48	24.12	157.0%
CCP/Base Acre	0.11	4.59	4.48	4005.7%
DP/Base Acre	15.25	34.90	19.65	128.8%
Receipts & Payments/Harv. Base Acre	192.80	216.60	23.79	12.3%
Net CCC Outlays*	(Million Dollars, FY2008 - FY2012 Total)			
Wheat	5,887	13,479	7,592	129.0%
Other CCC Outlays	51,382	51,384	2	0.0%
Total	57,269	64,862	7,593	13.3%
Farm Income	(Billion Dollars, 2008 - 2012 Total)			
Government Payments	55.46	64.31	8.85	16.0%
Crop Receipts	737.44	737.45	0.01	0.0%
Livestock Receipts	641.79	641.75	-0.03	0.0%
Rent to Nonoperator Landlords	68.20	70.62	2.42	3.6%
Other Production Costs	1,273.86	1,274.65	0.79	0.1%
Other Net Farm Income	218.50	218.88	0.39	0.2%
Net Farm Income	311.12	317.13	6.00	1.9%

* Note: The estimated 10-year (FY 2008-FY 2017) increase in CCC net outlays is $16,509 million.

Changes in Soybean Program Provisions

The American Soybean Association (ASA) has proposed changes in target prices and loan rates for a number of commodities. The proposal would increase the soybean target price from the current $5.80 per bushel to $6.85 per bushel, representing 130 percent of the Olympic average (the average excluding the high and the low observation) of 2000/01-2004/05 soybean prices. The proposal would also increase the soybean loan rate from the current $5.00 per bushel to $5.01 per bushel, representing 95 percent of the 2000/01-2004/05 Olympic average price.

The scenario examines only the changes in soybean target prices and loan rates, holding provisions for all other commodities at baseline levels. The final scenario considers all of the ASA proposed changes simultaneously. Table 2 summarizes results from the stochastic analysis.

- The increases in soybean target prices and loan rates have little effect on soybean acreage, production or market prices.

- One reason estimated supply effects are small is because baseline soybean prices are high enough that payments under the marketing loan and countercyclical payment programs are small on average. They remain relatively modest even when target prices and loan rates are increased.

- Another reason that supply effects are small is that the program changes primarily increase countercyclical payments rather than loan program benefits. On a dollar-for-dollar basis, countercyclical payments are expected to have smaller effects on production than are marketing loan benefits. Countercyclical payments are tied to a fixed base acreage, not current production levels.

- Soybean countercyclical payments increase by an average of $6.03 per soybean base acre over the 2008/09-2012/13 period, relative to the current policy baseline.

- Net farm program outlays increase by a total of $1.0 billion over fiscal years 2008-2012 and by $3.3 billion over fiscal years 2008-2017.

- Government payments increase by a total of $1.2 billion over calendar years 2008-2012. This exceeds the change in farm program outlays, in part because some countercyclical payments associated with the 2011/12 soybean crop are made in the last months of 2012, after the end of fiscal year 2012.

- Net farm income increases by a total of $0.9 billion over calendar years 2008-2012. The increase in net farm income is less than the increase in government payments, primarily because of increased rental payments to nonoperator landlords.

Table 2. Effects of Changes in Soybean Program Provisions

	Baseline	Higher Soybean Target Price and Loan Rate	Absolute Difference	Percentage Difference
Soybean Program Provisions	(Dollars per Bushel, 2008/09 - 2012/13 Average)			
Soybean Direct Payment Rate	0.44	0.44	0.00	0.0%
Soybean Target Price	5.80	6.85	1.05	18.1%
Soybean Loan Rate	5.00	5.01	0.01	0.2%
Soybean Sector Supply and Use	(Million Bushels, 2008/09 - 2012/13 Average)			
Soybean Production	2,939	2,943	4	0.1%
Soybean Domestic Use	1,957	1,958	1	0.1%
Soybean Exports	996	999	3	0.3%
Crop Planted Acreage	(Million Acres, 2008/09 - 2012/13 Average)			
Soybeans	70.14	70.23	0.09	0.1%
11 Other Crops Plus Hay	245.13	245.09	-0.04	0.0%
Conservation Reserve Area	32.69	32.68	0.00	0.0%
12 Crops + Hay + CRP	347.95	348.00	0.05	0.0%
Soybean Prices, Receipts, Payments	(Dollars, 2008/09 - 2012/13 Average)			
Farm Price/Bushel	6.92	6.91	-0.01	-0.2%
Market + Loan Benefits/Acre	294.04	293.54	-0.49	-0.2%
Market Value/Acre	292.79	292.27	-0.52	-0.2%
Marketing Loan Benefits/Acre	1.25	1.27	0.02	1.9%
CCP + DP/Base Acre	12.10	18.13	6.03	49.9%
CCP/Base Acre	0.58	6.61	6.03	1046.8%
DP/Base Acre	11.52	11.52	0.00	0.0%
Receipts & Payments/Harv. Base Acre	306.13	311.67	5.54	1.8%
Net CCC Outlays*	(Million Dollars, FY2008 - FY2012 Total)			
Soybeans	3,464	4,475	1,011	29.2%
Other CCC Outlays	53,805	53,799	-6	0.0%
Total	57,269	58,275	1,005	1.8%
Farm Income	(Billion Dollars, 2008 - 2012 Total)			
Government Payments	55.46	56.66	1.20	2.2%
Crop Receipts	737.44	737.37	-0.06	0.0%
Livestock Receipts	641.79	641.75	-0.04	0.0%
Rent to Nonoperator Landlords	68.20	68.48	0.28	0.4%
Other Production Costs	1,273.86	1,273.83	-0.02	0.0%
Other Net Farm Income	218.50	218.56	0.06	0.0%
Net Farm Income	311.12	312.03	0.91	0.3%

* Note: The estimated 10-year (FY 2008-FY 2017) increase in CCC net outlays is $3,293 million.

Changes in Peanut Program Provisions

In testimony before the Senate Committee on Agriculture, Nutrition and Forestry on April 25, 2007, Armond Morris of the Southern Peanut Farmers Federation called for an increase in the peanut direct payment rate to $40 per ton, in the target price to $550 per ton, and in the loan rate to $450 per ton.

The scenario assumes those program provisions are put in place for the 2008/09 marketing year but that all other farm program provisions are maintained at current levels. Table 3 summarizes results from the stochastic analysis.

- The increase in loan rates significantly increases support to peanut production when prices are near or below the loan rate. The result is a 5.4 percent average increase in peanut area and production over the 2008/09-2012/13 period relative to the current-policy baseline.

- The increase in peanut production results in a 10.0 percent average reduction in peanut prices. Lower peanut prices, in turn, result in increased domestic use and exports.

- Average marketing loan benefits increase from $5 per acre to $116 per acre, more than offsetting a $69 per acre reduction in market returns caused by the reduction in prices.

- The increase in target prices and direct payment rates results in a $38 increase in direct and countercyclical payments per base acre.

- Net farm program outlays increase by a total of $948 million over fiscal years 2008-2012 and by $2.3 billion over fiscal years 2008-2017.

- Net farm income increases by a total of $410 million over 2008-2012. The increase in net farm income is much less than the increase in government payments, in part because lower peanut prices reduce crop market receipts.

Table 3. Effects of Changes in Peanut Program Provisions

	Baseline	Higher Peanut Target, Loan, and Direct	Absolute Difference	Percentage Difference
Peanut Program Provisions	(Cents per Pound, 2008/09 - 2012/13 Average)			
Peanut Direct Payment Rate	1.80	2.00	0.20	11.1%
Peanut Target Price	24.75	27.75	3.00	12.1%
Peanut Loan Rate	17.75	22.50	4.75	26.8%
Peanut Sector Supply and Use	(Million Pounds, 2008/09 - 2012/13 Average)			
Peanut Production	4,098	4,321	223	5.4%
Peanut Domestic Use	3,649	3,750	101	2.8%
Peanut Exports	478	568	90	18.9%
Crop Planted Acreage	(Million Acres, 2008/09 - 2012/13 Average)			
Peanut	1.37	1.44	0.07	5.4%
11 Other Crops Plus Hay	313.90	313.85	-0.05	0.0%
Conservation Reserve Area	32.69	32.67	-0.01	0.0%
12 Crops + Hay + CRP	347.95	347.97	0.02	0.0%
Peanut Prices, Receipts, Payments	(Dollars, 2008/09 - 2012/13 Average)			
Farm Price/Pound	0.223	0.201	-0.022	-10.0%
Market + Loan Benefits/Acre	682.84	725.84	43.00	6.3%
Market Value/Acre	678.03	609.39	-68.63	-10.1%
Marketing Loan Benefits/Acre	4.81	116.44	111.63	2319.7%
CCP + DP/Base Acre	80.36	118.63	38.26	47.6%
CCP/Base Acre	34.62	67.81	33.18	95.8%
DP/Base Acre	45.74	50.82	5.08	11.1%
Receipts & Payments/Harv. Base Acre	763.20	844.47	81.26	10.6%
Net CCC Outlays*	(Million Dollars, FY2008 - FY2012 Total)			
Peanut	727	1,603	876	120.6%
Other CCC Outlays	56,543	56,614	72	0.1%
Total	57,269	58,217	948	1.7%
Farm Income	(Billion Dollars, 2008 - 2012 Total)			
Government Payments	55.46	56.42	0.97	1.7%
Crop Receipts	737.44	737.20	-0.24	0.0%
Livestock Receipts	641.79	641.80	0.01	0.0%
Rent to Nonoperator Landlords	68.20	68.39	0.19	0.3%
Other Production Costs	1,273.86	1,274.06	0.20	0.0%
Other Net Farm Income	218.50	218.55	0.06	0.0%
Net Farm Income	311.12	311.53	0.41	0.1%

* Note: The estimated 10-year (FY 2008-FY 2017) increase in CCC net outlays is $2,277 million.

Changes in Barley Program Provisions

In testimony before the Senate Committee on Agriculture, Nutrition and Forestry on April 25, 2007, Evan Hayes of the National Barley Growers Association called for an increase in the barley direct payment rate to $0.42 per bushel, in the target price to $3.21 per bushel, and in the loan rate to $2.35 per bushel.

The scenario assumes those program provisions are put in place for the 2008/09 marketing year, but that all other farm program provisions are maintained at current levels. The final scenario examines the impact of the proposed changes in barley target prices and loan rates in conjunction with adjustments for other commodities. Table 4 summarizes results from the stochastic analysis.

- The increase in the barley loan rate significantly increases payments tied to barley production levels when prices are near or below the loan rate.The increases in direct payments and the target price increase payments that are less tied to current production decisions, but nevertheless do have some impact on production.

- The result is a 1.9 percent average increase relative to the baseline in barley area and production over the 2008/09-2012/13 period.

- The increase in barley production results in slightly lower barley prices, which in turn contribute to a modest increase in barley use and exports.

- Average marketing loan benefits increase from less than $1 per acre to almost $7 per acre. Market returns decline slightly because of the reduction in market prices, but the sum of market returns and loan program benefits increases by a net of $4 per acre.

- The increase in direct payment rates and target prices results in an average increase in direct and countercyclical payments of $15 per barley base acre.

- Net farm program outlays increase by a total of $622 million over fiscal years 2008-2012. The increase in outlays over fiscal years 2008-2017 is $1.5 billion.

- Net farm income increases by a total of $480 million over calendar years 2008-2012. Higher rental payments to nonoperator landlords result in a smaller increase in net farm income than the increase in government payments.

Table 4. Effects of Changes in Barley Program Provisions

	Baseline	Higher Barley Target, Loan, and Direct	Absolute Difference	Percentage Difference
Barley Program Provisions	(Dollars per Bushel, 2008/09 - 2012/13 Average)			
Barley Direct Payment Rate	0.24	0.42	0.18	75.0%
Barley Target Price	2.24	3.21	0.97	43.3%
Barley Loan Rate	1.85	2.35	0.50	27.0%
Barley Sector Supply and Use	(Million Bushels, 2008/09 - 2012/13 Average)			
Barley Production	191.2	195.0	3.7	1.9%
Barley Domestic Use	194.2	196.8	2.5	1.3%
Barley Exports	16.4	17.2	0.8	4.8%
Crop Planted Acreage	(Million Acres, 2008/09 - 2012/13 Average)			
Barley	3.36	3.43	0.06	1.9%
11 Other Crops Plus Hay	311.90	311.88	-0.02	0.0%
Conservation Reserve Area	32.69	32.68	-0.01	0.0%
12 Crops + Hay + CRP	347.95	347.98	0.03	0.0%
Barley Prices, Receipts, Payments	(Dollars, 2008/09 - 2012/13 Average)			
Farm Price/Bushel	3.16	3.12	-0.04	-1.3%
Market + Loan Benefits/Acre	206.62	210.55	3.92	1.9%
Market Value/Acre	206.25	203.60	-2.65	-1.3%
Marketing Loan Benefits/Acre	0.37	6.95	6.58	1759.9%
CCP + DP/Base Acre	9.79	24.97	15.18	155.1%
CCP/Base Acre	0.08	7.98	7.90	10260.8%
DP/Base Acre	9.71	16.99	7.28	75.0%
Receipts & Payments/Harv. Base Acre	216.41	235.52	19.11	8.8%
Net CCC Outlays*	(Million Dollars, FY2008 - FY2012 Total)			
Barley	427	1,052	624	146.1%
Other CCC Outlays	56,842	56,839	-2	0.0%
Total	57,269	57,891	622	1.1%
Farm Income	(Billion Dollars, 2008 - 2012 Total)			
Government Payments	55.46	56.16	0.70	1.3%
Crop Receipts	737.44	737.44	0.01	0.0%
Livestock Receipts	641.79	641.78	0.00	0.0%
Rent to Nonoperator Landlords	68.20	68.38	0.18	0.3%
Other Production Costs	1,273.86	1,273.94	0.08	0.0%
Other Net Farm Income	218.50	218.53	0.04	0.0%
Net Farm Income	311.12	311.60	0.48	0.2%

* Note: The estimated 10-year (FY 2008-FY 2017) increase in CCC net outlays is $1,505 million.

Changes in Rice Program Provisions

In testimony before the Senate Committee on Agriculture, Nutrition and Forestry on April 25, 2007, Paul Combs of the USA Rice Federation called for an increase in the rice target price to $11.00 per hundredweight and in the rice loan rate to $7.00 per hundredweight.

The scenario assumes those program provisions are put in place for the 2008/09 marketing year, but that all other farm program provisions are maintained at current levels. Table 5 summarizes results from the stochastic analysis.

- The increase in the rice loan rate results in an increase in marketing loan benefits when rice prices are near or below the loan rate. This is the main factor contributing to a 2.0 percent average increase relative to the baseline in rice acreage and production between 2008/09 and 2012/13.

- The increase in rice production results in a 0.9 percent reduction in rice market prices and increases in rice use, with exports increasing much more than domestic consumption.

- Average rice marketing loan benefits increase by $16 per acre, more than offsetting the $5 per acre reduction in market returns that results from the decline in rice prices.

- The increase in target prices results in a $9 increase in average countercyclical payments per rice base acre.

- Net farm program spending increases by a total of $430 million over fiscal years 2008-2012, and by $775 million over fiscal years 2008-2017.

- Net farm income increases by a total of $270 million over calendar years 2008-2012. Government payments increase by $420 million and crop receipts increase by $100 million, as the increase in rice production more than offsets the decline in rice prices. Increased rice acreage results in an increase in variable production costs, and rental payments to nonoperator landlords also increase.

Table 5. Effects of Changes in Rice Program Provisions

	Baseline	Higher Rice Target Price, Loan Rate	Absolute Difference	Percentage Difference
Rice Program Provisions	(Dollars per Hundredweight, 2008/09 - 2012/13 Average)			
Rice Direct Payment Rate	2.35	2.35	0.00	0.0%
Rice Target Price	10.50	11.00	0.50	4.8%
Rice Loan Rate	6.50	7.00	0.50	7.7%
Rice Sector Supply and Use	(Million Hundredweight, 2008/09 - 2012/13 Average)			
Rice Production	214.5	218.8	4.3	2.0%
Rice Domestic Use	134.2	134.5	0.3	0.2%
Rice Exports	99.1	102.8	3.7	3.7%
Crop Planted Acreage	(Million Acres, 2008/09 - 2012/13 Average)			
Rice	3.00	3.06	0.06	2.0%
11 Other Crops Plus Hay	312.26	312.22	-0.04	0.0%
Conservation Reserve Area	32.69	32.69	0.00	0.0%
12 Crops + Hay + CRP	347.95	347.97	0.02	0.0%
Rice Prices, Receipts, Payments	(Dollars, 2008/09 - 2012/13 Average)			
Farm Price/Hundredweight	8.30	8.23	-0.07	-0.9%
Market + Loan Benefits/Acre	626.51	637.48	10.97	1.8%
Market Value/Acre	597.38	592.07	-5.31	-0.9%
Marketing Loan Benefits/Acre	29.13	45.41	16.28	55.9%
CCP + DP/Base Acre	111.98	121.41	9.43	8.4%
CCP/Base Acre	15.76	25.19	9.43	59.8%
DP/Base Acre	96.22	96.22	0.00	0.0%
Receipts & Payments/Harv. Base Acre	738.49	758.89	20.40	2.8%
Net CCC Outlays*	(Million Dollars, FY2008 - FY2012 Total)			
Rice	2,976	3,393	417	14.0%
Other CCC Outlays	54,293	54,307	14	0.0%
Total	57,269	57,700	430	0.8%
Farm Income	(Billion Dollars, 2008 - 2012 Total)			
Government Payments	55.46	55.87	0.42	0.8%
Crop Receipts	737.44	737.53	0.10	0.0%
Livestock Receipts	641.79	641.80	0.02	0.0%
Rent to Nonoperator Landlords	68.20	68.31	0.11	0.2%
Other Production Costs	1,273.86	1,274.03	0.18	0.0%
Other Net Farm Income	218.50	218.52	0.02	0.0%
Net Farm Income	311.12	311.39	0.27	0.1%

* Note: The estimated 10-year (FY 2008-FY 2017) increase in CCC net outlays is $775 million.

Changes in Minor Oilseed Program Provisions

In testimony before the Senate Committee on Agriculture, Nutrition and Forestry on April 25, 2007, John Swanson of the National Sunflower Association called for an increase in the minor oilseed target price to 14.66 cents per pound, and in the loan rate to 10.71 cents per pound.

The scenario assumes those program provisions are put in place for the 2008/09 marketing year, but that all other farm program provisions are maintained at current levels (the final scenario included in this report examines the impact of the proposed changes in minor oilseed target prices and loan rates in conjunction with adjustments for other commodities). Table 6 summarizes results from the stochastic analysis.

- Sunflowerseed prices generally are projected to exceed even the proposed higher loan rate. However, when sunflowerseed prices are near or below the new loan rate the result is in an increase in marketing loan benefits. Averaging across the 2008/09-2012/13 period and across a range of sunflowerseed market outcomes, the average marketing loan benefit increases by $2.48 per acre relative to the current-policy baseline.

- Under current policies, no countercyclical payments are available to minor oilseed producers. The increase in target prices increases countercyclical payments by an average of $7.06 per sunflowerseed base acre.

- The increases in marketing loan benefits and countercyclical payments contribute to a 1.1 percent increase in sunflowerseed acreage and production. On a dollar-for-dollar basis, marketing loan benefits affect acreage more than countercyclical payments, as the former are directly tied to production decisions.

- The increase in sunflowerseed production results in a small decline in sunflowerseed prices.

- The FAPRI stochastic model does not estimate supply and use impacts on canola and other minor oilseeds. However, qualitative results for other minor oilseeds are likely to be similar to those for sunflowerseed.

- Net outlays on farm programs increase by a total of $91 million over fiscal years 2008-2012 and by $303 million over fiscal years 2008-2017.

- The estimated total increase in net farm income over 2008-2012 is also about $90 million. This estimate should be treated with caution, due to model limitations in estimating impacts of changes in minor oilseed policies. Based on results for similar scenarios for other commodities, one would expect the effect on net farm income to be smaller than the increase in government farm program costs.

Table 6. Effects of Changes in Minor Oilseed Program Provisions

	Baseline	Higher Minor Oil Target, Loan Rate	Absolute Difference	Percentage Difference
Minor Oilseed Program Provisions	(Cents per Pound, 2008/09 - 2012/13 Average)			
Minor Oil Direct Payment Rate	0.80	0.80	0.00	0.0%
Minor Oilseed Target Price	10.10	14.66	4.56	45.1%
Minor Oilseed Loan Rate	9.30	10.71	1.41	15.2%
Sunflower Sector Supply and Use	(Million Pounds, 2008/09 - 2012/13 Average)			
Sunflowerseed Production	2,612	2,641	29	1.1%
Sunflowerseed Domestic Use	2,479	2,503	25	1.0%
Sunflowerseed Exports	288	292	4	1.5%
Crop Planted Acreage	(Million Acres, 2008/09 - 2012/13 Average)			
Sunflowerseed	2.07	2.09	0.02	1.1%
11 Other Crops Plus Hay	313.20	313.19	-0.01	0.0%
Conservation Reserve Area	32.69	32.69	0.00	0.0%
12 Crops + Hay + CRP	347.95	347.96	0.01	0.0%
Sunflower Prices, Receipts, Payments	(Dollars, 2008/09 - 2012/13 Average)			
Farm Price/Pound	0.142	0.142	0.00	-0.2%
Market + Loan Benefits/Acre	192.78	194.95	2.17	1.1%
Market Value/Acre	192.08	191.77	-0.31	-0.2%
Marketing Loan Benefits/Acre	0.70	3.18	2.48	354.9%
CCP + DP/Base Acre	7.37	14.43	7.06	95.7%
CCP/Base Acre	0.00	7.06	7.06	n.a.
DP/Base Acre	7.37	7.37	0.00	0.0%
Receipts & Payments/Harv. Base Acre	200.15	209.37	9.22	4.6%
Net CCC Outlays*	(Million Dollars, FY2008 - FY2012 Total)			
Minor Oilseeds	110	201	91	83.3%
Other CCC Outlays	57,159	57,159	0	0.0%
Total	57,269	57,360	91	0.2%
Farm Income	(Billion Dollars, 2008 - 2012 Total)			
Government Payments	55.46	55.55	0.09	0.2%
Crop Receipts	737.44	737.44	0.01	0.0%
Livestock Receipts	641.79	641.79	0.00	0.0%
Rent to Nonoperator Landlords	68.20	68.23	0.03	0.0%
Other Production Costs	1,273.86	1,273.85	-0.01	0.0%
Other Net Farm Income	218.50	218.50	0.00	0.0%
Net Farm Income	311.12	311.21	0.09	0.0%

* Note: The estimated 10-year (FY 2008-FY 2017) increase in CCC net outlays is $303 million.

American Soybean Association Proposal

The American Soybean Association has proposed changes in target prices and loan rates for a number of commodities. For each commodity, the target price would be set at the greater of current levels or 130 percent of the Olympic average (the average excluding the high and the low observation) of 2000/01-2004/05 market prices. Loan rates would be set at the greater of current levels or 95 percent of the 2000/01-2004/05 Olympic average price.

The scenario assumes all of the resulting changes in target prices and loan rates are implemented in 2008/09 but that other farm program provisions are maintained at baseline levels. Tables 7a, 7b and 7c summarize results from the stochastic analysis.

- The proportional increases in target prices are greater for barley, minor oilseeds, oats and soybeans than for other commodities.

- Loan rate increases are proportionally larger for barley, minor oilseeds, wheat, peanuts and oats than for other commodities.

- For cotton and rice, target prices and loan rates remain at baseline levels.

- Acreage changes largely reflect the changes in relative loan rates. Acreage increases most in proportional terms for barley, peanuts, sunflowerseed and oats, with smaller proportional increases for wheat and soybeans. Corn, soybean and cotton acreage contract slightly. Overall, the average area devoted to the 12 major field crops, hay and the conservation reserve increases by 140,000 acres, or less than 0.1 percent, over the 2008/09-2012/13 period.

- The directional changes in market prices are generally opposite the changes in acreage and production. The largest average price declines occur for barley and peanuts. Other price effects are less than 1 percent relative to the baseline.

- Marketing loan payments per acre increase the most in absolute terms for peanuts, barley and sunflowerseed.

- Increases in countercyclical payments per base acre are greater in absolute terms for peanuts, barley, sunflowerseed, soybeans and oats than for other commodities.

- Net outlays on farm programs increase by a total of $2.4 billion over fiscal years 2008-2012 and by $6.9 billion over fiscal years 2008-2017.

- Net farm income increases by a total of $1.8 billion over calendar years 2008-2012. Increased rental payments to nonoperator landlords are the main reason the increase in net farm income is smaller than the increase in government payments.

Table 7a. Effects of American Soybean Association Proposed Changes in Program Provisions

	Baseline	American Soybean Association	Absolute Difference	Percentage Difference
Target Prices	(Dollars per Bushel, 2008/09 - 2012/13 Average)			
Soybeans	5.80	6.85	1.05	18.1%
Wheat	3.92	4.15	0.23	5.9%
Corn	2.63	2.75	0.12	4.6%
Sorghum	2.57	2.66	0.09	3.5%
Barley	2.24	3.21	0.97	43.3%
Oats	1.44	1.97	0.53	36.8%
	(Dollars per Hundredweight, 2008/09 - 2012/13 Average)			
Rice	10.50	10.50	0.00	0.0%
	(Cents per Pound, 2008/09 - 2012/13 Average)			
Upland Cotton	72.40	72.40	0.00	0.0%
Minor Oilseeds	10.10	14.66	4.56	45.1%
Peanuts	24.75	26.70	1.95	7.9%
Loan Rates	(Dollars per Bushel, 2008/09 - 2012/13 Average)			
Soybeans	5.00	5.01	0.01	0.2%
Wheat	2.75	3.03	0.28	10.2%
Corn	1.95	2.01	0.06	3.1%
Sorghum	1.95	1.95	0.00	0.0%
Barley	1.85	2.35	0.50	27.0%
Oats	1.33	1.44	0.11	8.3%
	(Dollars per Hundredweight, 2008/09 - 2012/13 Average)			
Rice	6.50	6.50	0.00	0.0%
	(Cents per Pound, 2008/09 - 2012/13 Average)			
Upland Cotton	52.00	52.00	0.00	0.0%
Minor Oilseeds	9.30	10.71	1.41	15.2%
Peanuts	17.75	19.50	1.75	9.9%
Crop Planted Acreage	(Million Acres, 2008/09 - 2012/13 Average)			
Soybeans	70.14	70.22	0.08	0.1%
Wheat	57.92	57.96	0.04	0.1%
Corn	89.96	89.91	-0.05	-0.1%
Sorghum	6.62	6.61	0.00	-0.1%
Barley	3.36	3.44	0.07	2.2%
Oats	3.79	3.81	0.02	0.5%
Rice	3.00	3.00	0.00	0.0%
Upland Cotton	13.79	13.78	-0.01	-0.1%
Sunflowerseed	2.07	2.08	0.01	0.7%
Peanuts	1.37	1.38	0.01	1.1%
Sugar (Beets and Cane)	2.18	2.18	0.00	0.0%
Hay	61.07	61.06	-0.01	0.0%
Conservation Reserve Area	32.69	32.66	-0.03	-0.1%
12 Crops + Hay + CRP	347.95	348.09	0.14	0.0%

Table 7b. Effects of ASA Proposed Changes in Program Provisions, continued

	Baseline	American Soybean Association	Absolute Difference	Percentage Difference
Market Value of Production	(Dollars per Acre, 2008/09 - 2012/13 Average)			
Soybeans	292.79	292.29	-0.50	-0.2%
Wheat	177.41	177.37	-0.05	0.0%
Corn	507.65	507.70	0.05	0.0%
Sorghum	192.85	192.88	0.04	0.0%
Barley	206.25	203.22	-3.03	-1.5%
Oats	121.78	121.62	-0.16	-0.1%
Rice	597.38	597.40	0.02	0.0%
Upland Cotton	530.58	530.58	0.00	0.0%
Sunflowerseed	192.08	191.65	-0.43	-0.2%
Peanuts	678.03	664.58	-13.45	-2.0%
Marketing Loan Benefits	(Dollars per Acre, 2008/09 - 2012/13 Average)			
Soybeans	1.25	1.26	0.02	1.5%
Wheat	0.03	0.26	0.23	855.5%
Corn	0.05	0.09	0.04	81.3%
Sorghum	0.07	0.07	0.00	-1.2%
Barley	0.37	6.97	6.60	1765.7%
Oats	0.41	1.03	0.62	151.3%
Rice	29.13	29.12	-0.01	0.0%
Upland Cotton	31.00	30.93	-0.06	-0.2%
Sunflowerseed	0.70	3.18	2.48	355.2%
Peanuts	4.81	19.11	14.29	297.0%
Direct and Countercyclical Payments	(Dollars per Base Acre, 2008/09 - 2012/13 Average)			
Soybeans	12.10	18.10	6.01	49.7%
Wheat	15.36	15.84	0.48	3.1%
Corn	24.53	24.62	0.09	0.4%
Sorghum	16.91	17.01	0.10	0.6%
Barley	9.79	23.25	13.47	137.6%
Oats	1.04	5.93	4.89	470.7%
Rice	111.98	111.96	-0.02	0.0%
Upland Cotton	79.35	79.31	-0.04	0.0%
Sunflowerseed	7.37	14.44	7.07	95.8%
Peanuts	80.36	119.67	39.31	48.9%
Total Receipts and Payments	(Dollars per Harvested Base Acre, 2008/09 - 2012/13 Average)			
Soybeans	306.13	311.65	5.52	1.8%
Wheat	192.80	193.47	0.66	0.3%
Corn	532.23	532.40	0.18	0.0%
Sorghum	209.83	209.96	0.13	0.1%
Barley	216.41	233.45	17.04	7.9%
Oats	123.23	128.58	5.36	4.3%
Rice	738.49	738.48	-0.01	0.0%
Upland Cotton	640.92	640.82	-0.11	0.0%
Sunflowerseed	200.15	209.27	9.12	4.6%
Peanuts	763.20	803.35	40.15	5.3%

Table 7c. Effects of ASA Proposed Changes in Program Provisions, continued

	Baseline	American Soybean Association	Absolute Difference	Percentage Difference
Net CCC Outlays*	(Million Dollars, FY2008 - FY2012 Total)			
Soybeans	3,464	4,471	1,007	29.1%
Wheat	5,887	6,179	292	5.0%
Corn	10,598	10,655	57	0.5%
Sorghum	1,005	1,009	4	0.4%
Barley	427	978	550	128.8%
Oats	20	84	64	327.2%
Rice	2,976	2,975	-1	0.0%
Upland Cotton	10,446	10,439	-7	-0.1%
Minor Oilseeds	110	201	91	83.2%
Peanuts	727	1,027	301	41.4%
Other CCC Outlays	21,610	21,654	44	0.2%
Total	57,269	59,673	2,403	4.2%
Farm Income	(Billion Dollars, 2008 - 2012 Total)			
Government Payments	55.46	58.03	2.58	4.6%
Crop Receipts	737.44	737.36	-0.08	0.0%
Livestock Receipts	641.79	641.74	-0.05	0.0%
Rent to Nonoperator Landlords	68.20	68.82	0.63	0.9%
Other Production Costs	1,273.86	1,273.94	0.09	0.0%
Other Net Farm Income	218.50	218.61	0.11	0.1%
Net Farm Income	311.12	312.97	1.85	0.6%

*The estimated 10-year (FY 2008-FY 2017) increase in net CCC outlays is $6,871 million.

Notes

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College of Agriculture,
Food and Natural Resources