

The New Farm Bill Regional Rice Implications

Rice Listening Session

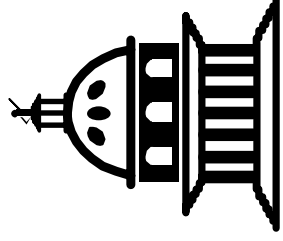
El Campo, Texas

Abner Womack

FAPRI
Food and Agricultural
Policy Research Institute

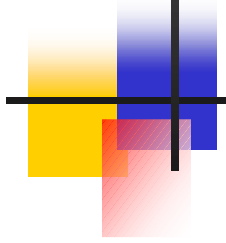
<http://www.fapri.missouri.edu>

<http://www.afpc.tamu.edu>



AFPC

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Major Features of the Bill

- Sets farm programs for next 6 years.
 - About \$5 billion/year in new commodity program spending
- Operators required to sign up every year.
 - Land owners sign up once, beginning Oct. 1, 2002
- More money for conservation, plus changes in other programs (food stamps, trade...)
- Overall increase in spending compared to 1996 bill continuation: about \$80 billion.



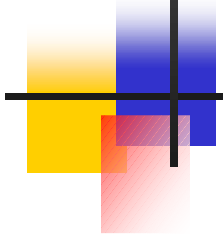
Major Features (Cont.)

- Commodity provisions similar to previous programs.
 - Continues fixed payments (AMTA or PFC)
 - Continues marketing loan gains/LDPs
 - No set asides
- Initiates counter-cyclical payments (CCPs).
- Allows one time update of base acres and payment yields.
- Oilseeds and peanuts now like other program crops.



2002 Farm Bill

	Loan Rate		Direct Payment	Target Price	
	2002-2003	2004-2007		2002-2003	2004-2007
Corn (bu)	\$1.98	\$1.95	\$0.28	\$2.60	\$2.63
Sorghum (bu)	\$1.98	\$1.95	\$0.35	\$2.54	\$2.57
Barley (bu)	\$1.88	\$1.85	\$0.24	\$2.21	\$2.24
Oats (bu)	\$1.35	\$1.33	\$0.024	\$1.40	\$1.44
Wheat (bu)	\$2.80	\$2.75	\$0.52	\$3.86	\$3.92
Soybeans (bu)	\$5.00	\$5.00	\$0.44	\$5.80	\$5.80
Minor Oilseeds (lb)	\$0.0960	\$0.0930	\$0.0080	\$0.0980	\$0.1010
Cotton (lb)	\$5.200	\$5.200	\$0.0667	\$0.7240	\$0.7240
Rice (cwt)	\$6.50	\$6.50	\$2.35	\$10.50	\$10.50



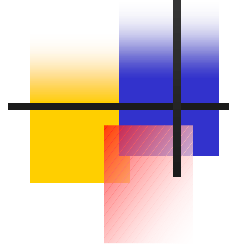
Rice Payment Schedule

	Month	Expected rate (at current market prices)	Maximum possible rate	No payment if price exceeds	Max payment if price less than
2002 Final Direct	Fall 2002*	\$2.35/cwt. - AMTA received	\$2.35/cwt. - AMTA received	n.a.	n.a.
2002 1st CCP	Oct. 2002*	\$0.578/cwt.	\$0.578/cwt.	\$8.15/cwt.	\$6.50/cwt.
2003 Advanced Direct	Dec. 2002*	\$1.175/cwt.	\$1.175/cwt.	n.a.	n.a.
2002 2nd CCP	Feb. 2003*	\$0.578/cwt.	\$1.155/cwt. minus 1st CCP	\$8.15/cwt.	\$6.50/cwt.
2002 3rd CCP	Sep. 2003	\$0.495/cwt.	\$1.65/cwt. minus 1st & 2nd CCPs	\$8.15/cwt.	\$6.50/cwt.
2003 Final Direct	Oct. 2003	\$1.175/cwt.	\$1.175/cwt.	n.a.	n.a.
2003 1st CCP	Oct. 2003	???	\$0.578/cwt.	\$8.15/cwt.	\$6.50/cwt.
2004 Advanced Direct	Dec. 2003	\$1.175/cwt.	\$1.175/cwt.	n.a.	n.a.

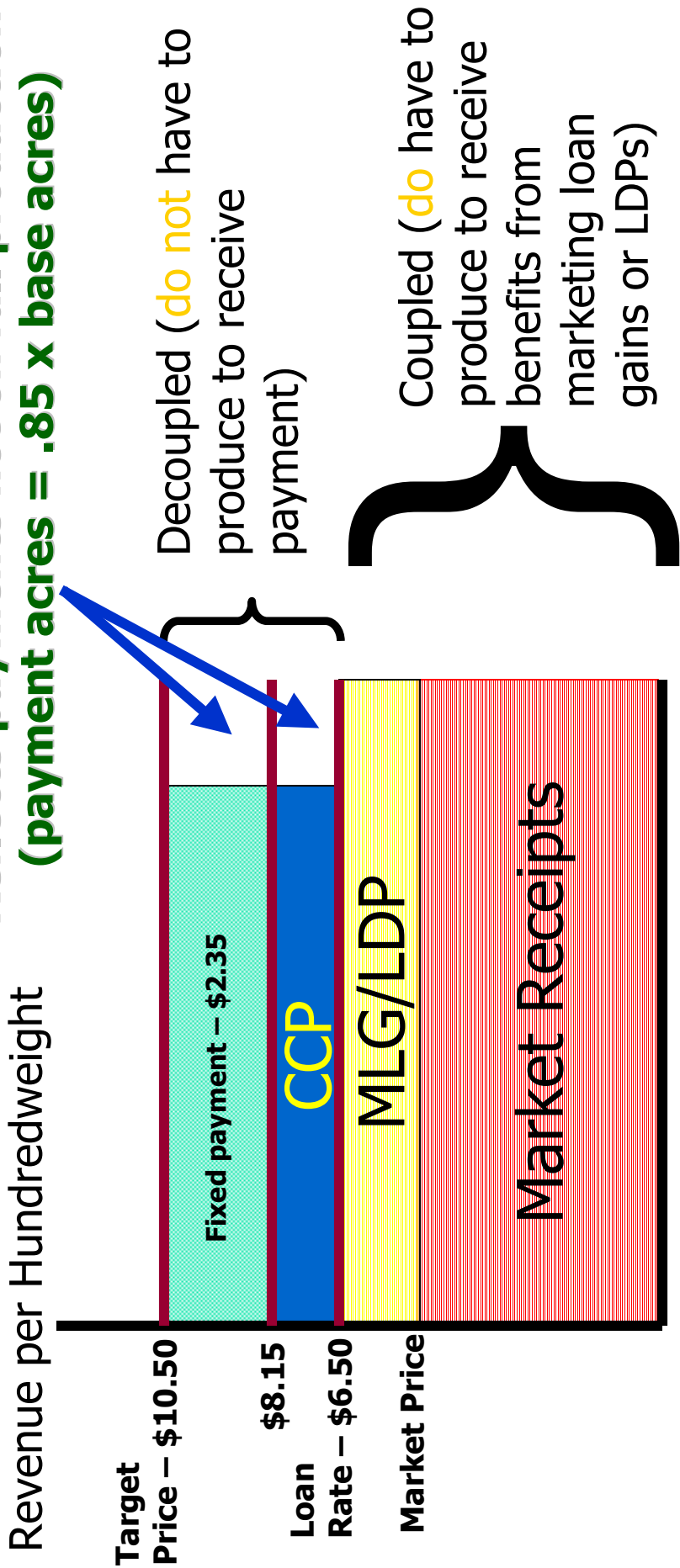
* Producers must sign up before these payments can be made

Distribution of Government Support

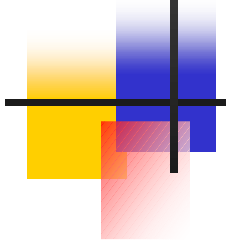
Example: Rice



**Reflects payments not on full production
(payment acres = .85 x base acres)**



Effective Target Price – \$9.90 (assumes 100% planted base; actual yields = payment yields) 6

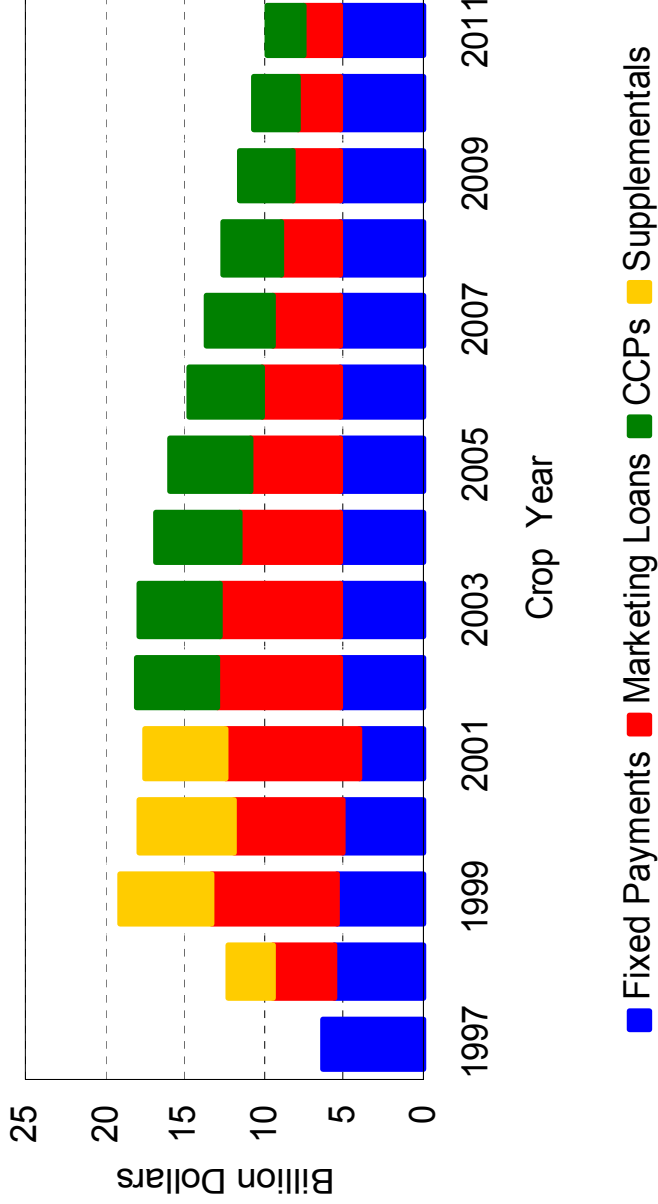


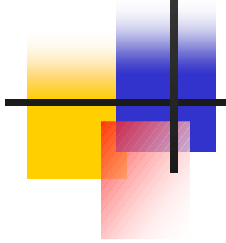
Selected Direct Payments

- Total **direct payments** to grain, oilseed, and cotton producers are about the same in 2002 and 2003 as in recent years.

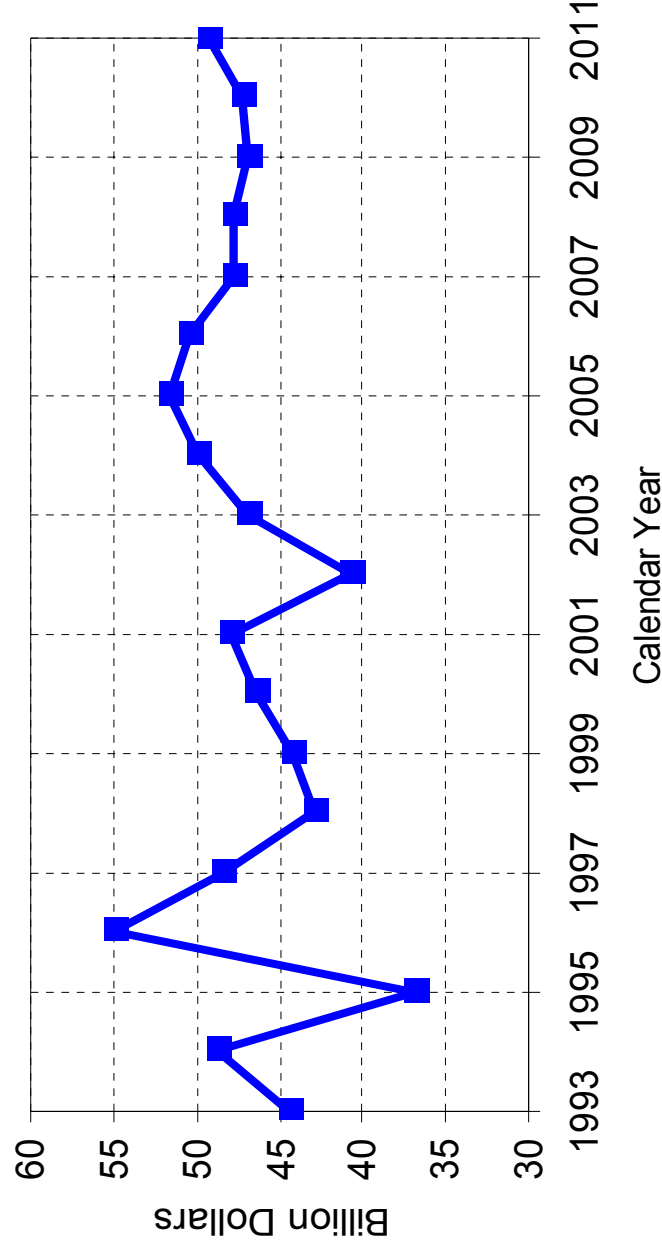
- Over the life of the farm bill, spending under the new **counter-cyclical payment (CCP)** program is similar to that provided under supplemental spending bills for 1998-2001.

- As projected market prices increase, **marketing loan** and CCP spending declines.



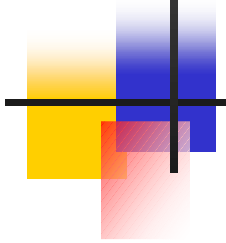


Net Farm Income

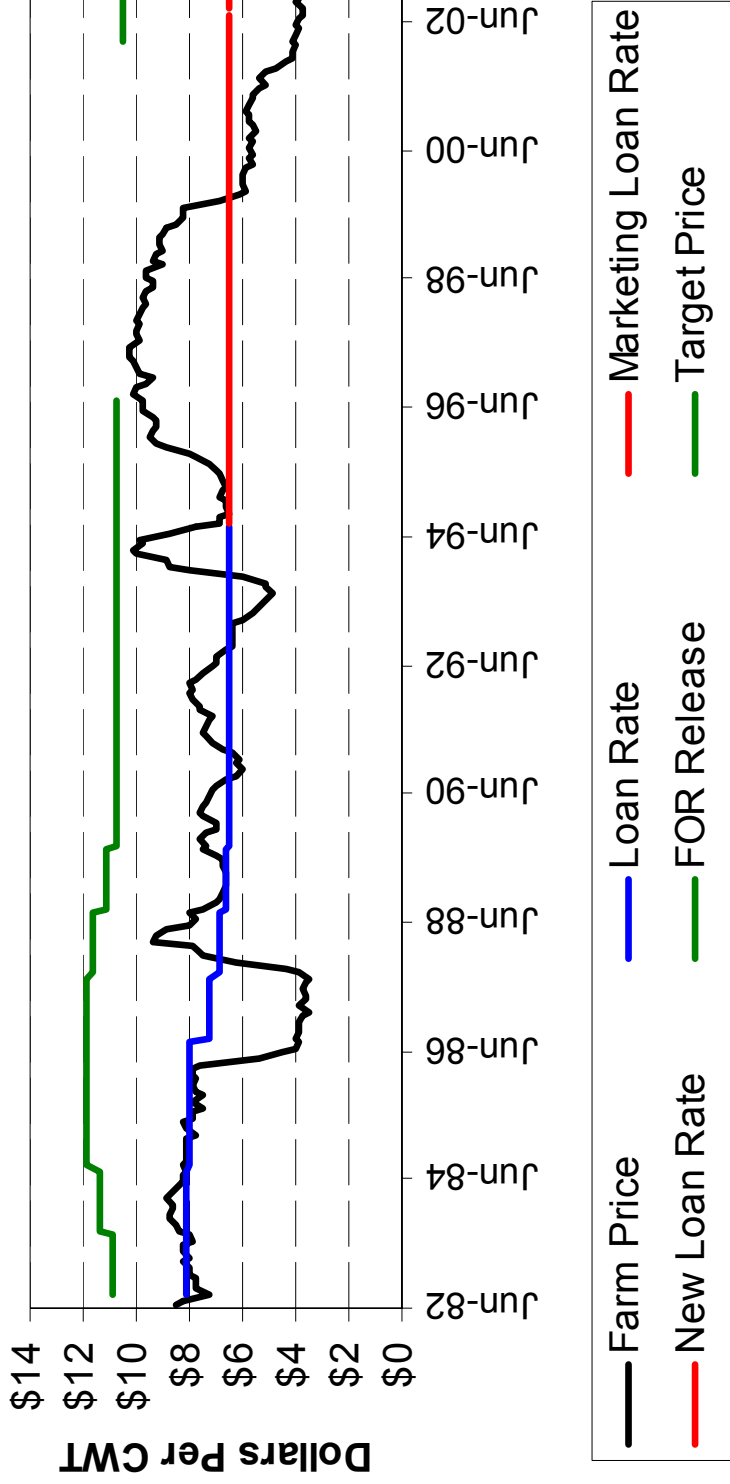


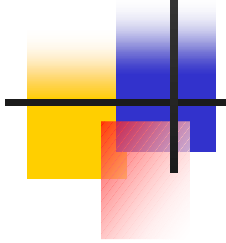
- **Net farm income** declines in calendar year 2002 because of lower livestock receipts and the timing of payments under the new farm bill.

- **Market price recovery** and government **payments** support farm income in 2003 and later years.

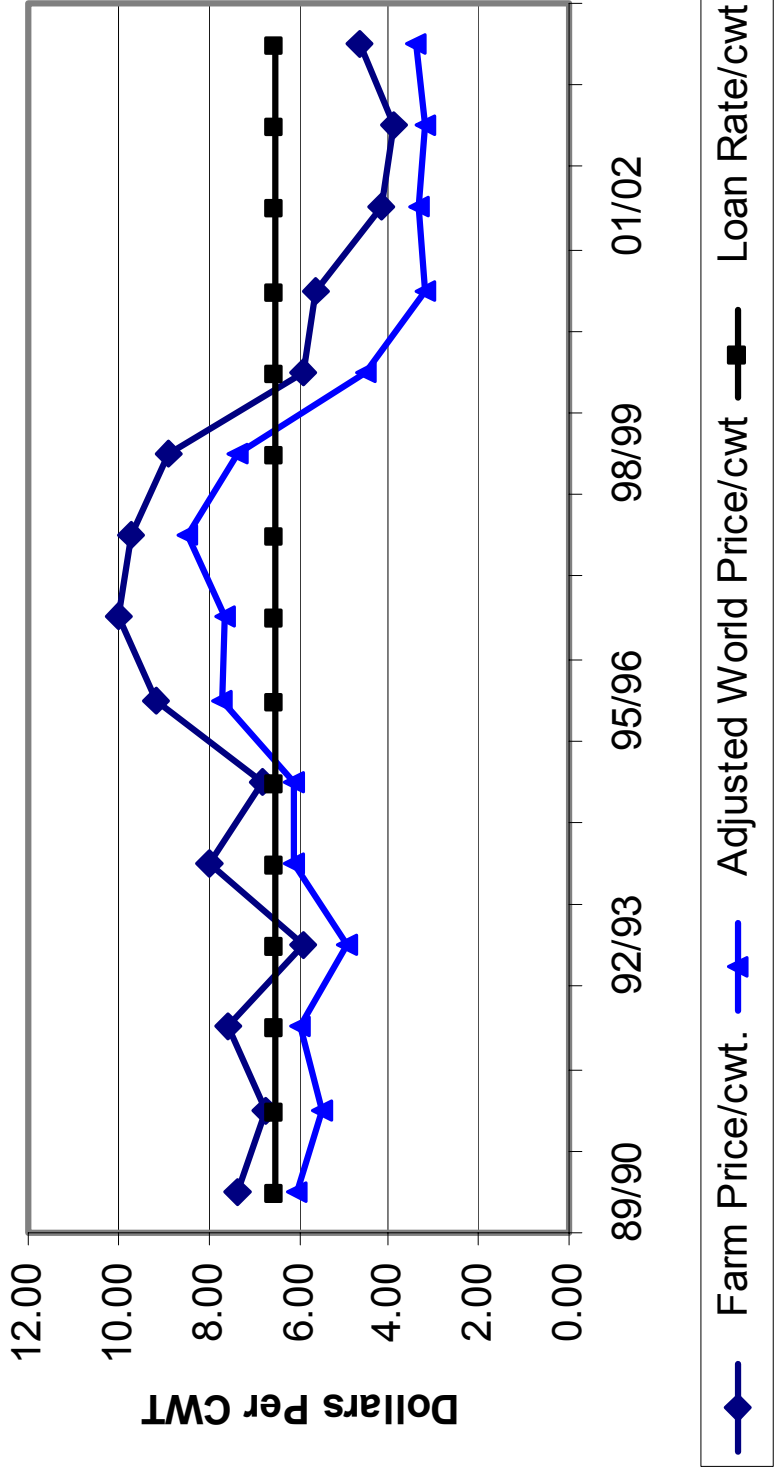


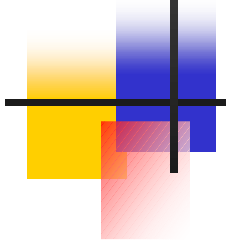
US Monthly Rice Price



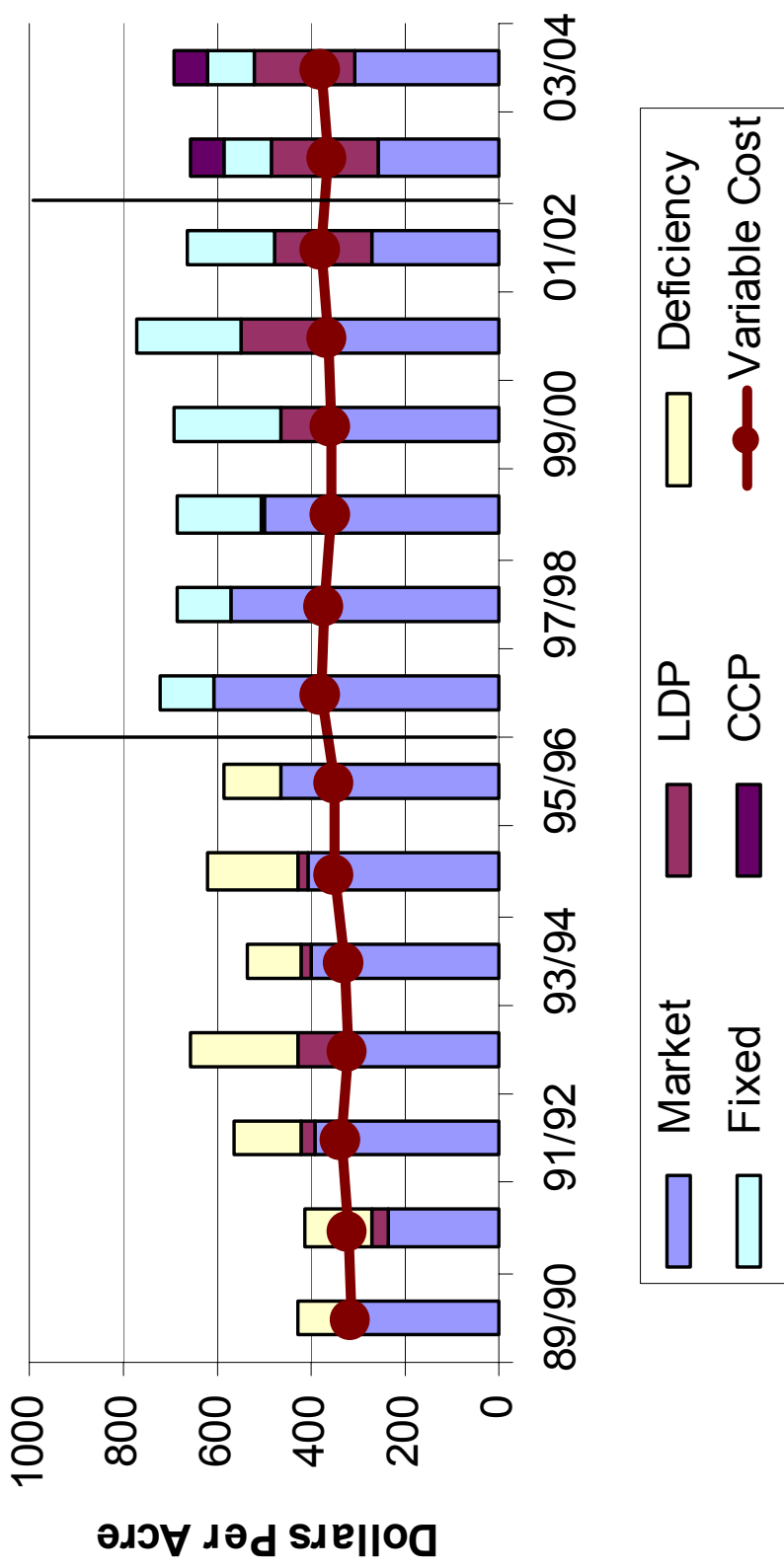


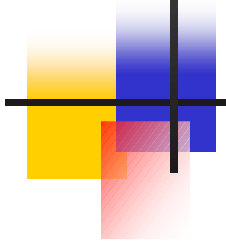
U.S. Rice Prices



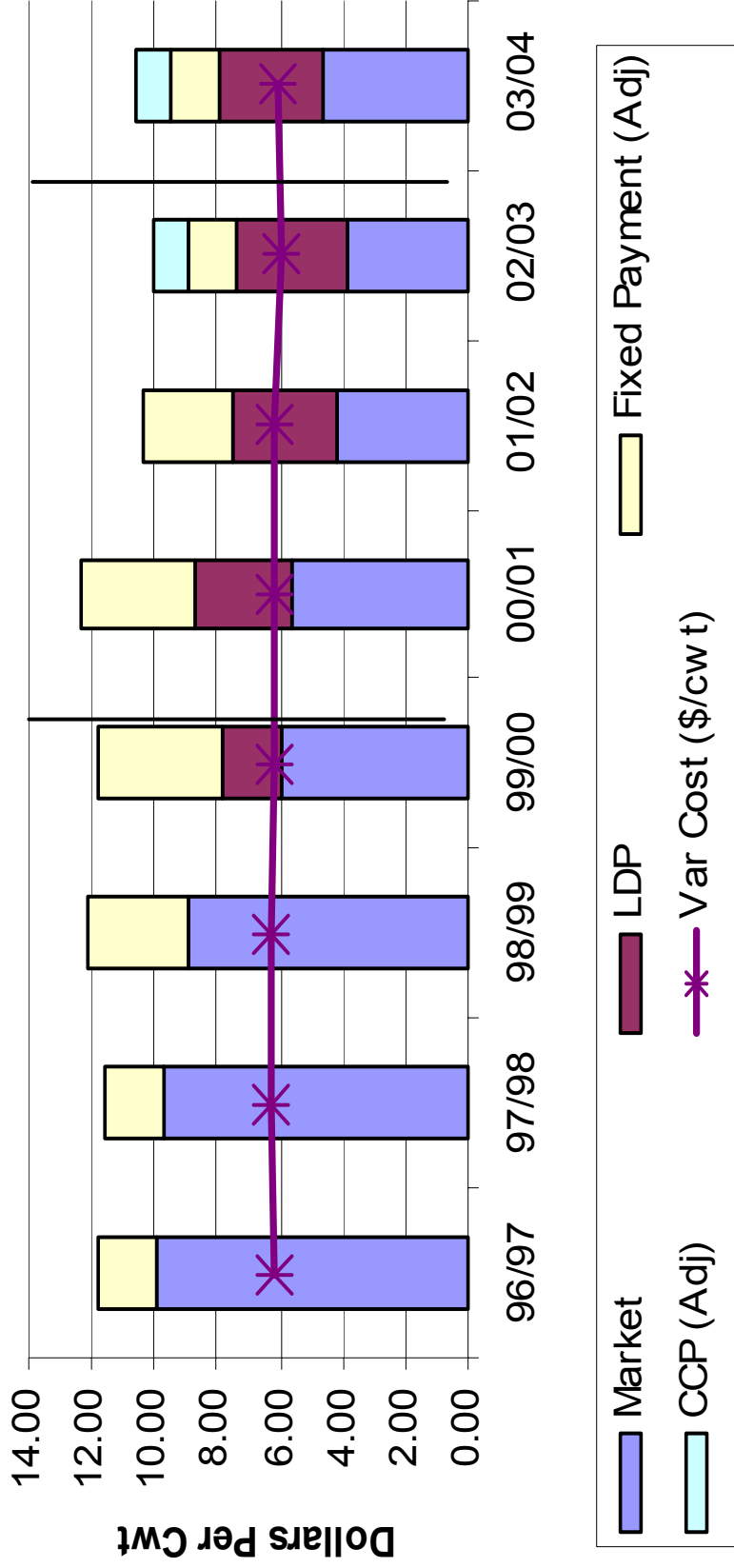


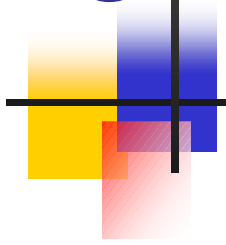
U.S. Rice Revenues Per Acre





U.S. Rice Revenues Per Cwt





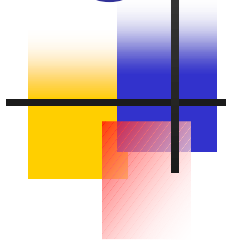
OBSERVATIONS

- Mid to late '90's strong world prices stimulated global production.
- Has been complemented by favorable weather patterns.
- Dropped US and world price to unexpected low levels.



OBSERVATIONS (cont.)

- Price drop accompanied by closing the gap between US and the adjusted world price
 - LDP payments significantly increased.
 - market returns significantly decreased.
 - net difference on average is \$75 to \$100 per acre.



OBSERVATIONS (cont.)

- With no breaking mechanisms in the farm bill like set asides and government stocks:
 - when prices are low , they will stay longer.
 - when prices are high , they will stay longer.
 - range of prices will be significantly greater.



IMPLICATIONS FROM AN AGGREGATE PROSPECTIVE

- When prices --domestic and world fall to current levels and stay for several years:
 - entire industry will feel the pressure.
 - government support will be higher.
 - lower yielding regions become much more vulnerable.



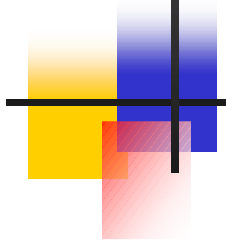
IMPLICATIONS FROM AN AGGREGATE PROSPECTIVE (cont.)

- Decoupled payments versus coupled will become more controversial.
- Coupled payments-- market return plus LDP not likely to cover variable production cost in lower yielding regions.
- Decoupled payments-- some or all of the counter cyclical plus direct payments will be necessary to make the difference.



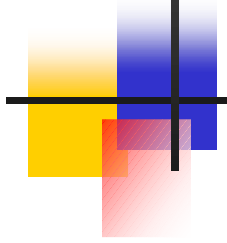
IMPLICATIONS FROM AN AGGREGATE PROSPECTIVE (cont.)

- Will be a stronger economic signal to pull land out of rice production?
- Renters will be much more vulnerable-problem compounds as the renter ratio increases.
- Monoculture areas will go to grass.
- Regions with alternate production options will switch from rice production.



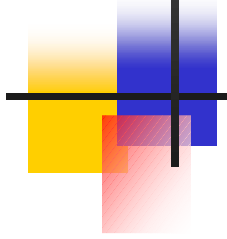
UNANSWERED QUESTIONS

- During low price periods what are the regional implications for the rice industry?
 - The economic incentive to exit rice production increases give the ratio implied between coupled and decoupled payments. At what Rate?
 - Land lord - tenant pressure will intensify. What percent will be forced to exit production?



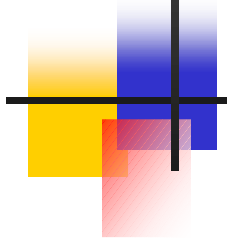
UNANSWERED QUESTIONS (cont.)

- What are the economic and environmental implications for the region?
- If price strength returns will there be adequate structure remaining to respond?
- Will the land exiting production continue to receive decoupled payments at the same rate in the next round of legislation?



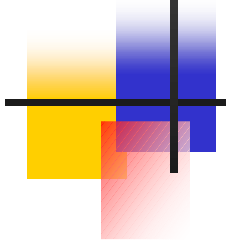
UNANSWERED QUESTIONS (cont.)

- In poor crop years the counter cyclical payment will likely be small to non-existent. This compounds the financial pressure for the producer that has crop damage. What are some marketing strategies that can be used to counter this risk?
- Some environmental payments require planting in 4 out of 6 years to receive payments. What options are available to Texas farmers that fallow land in a two to three year rotation?



UNANSWERED QUESTIONS (cont.)

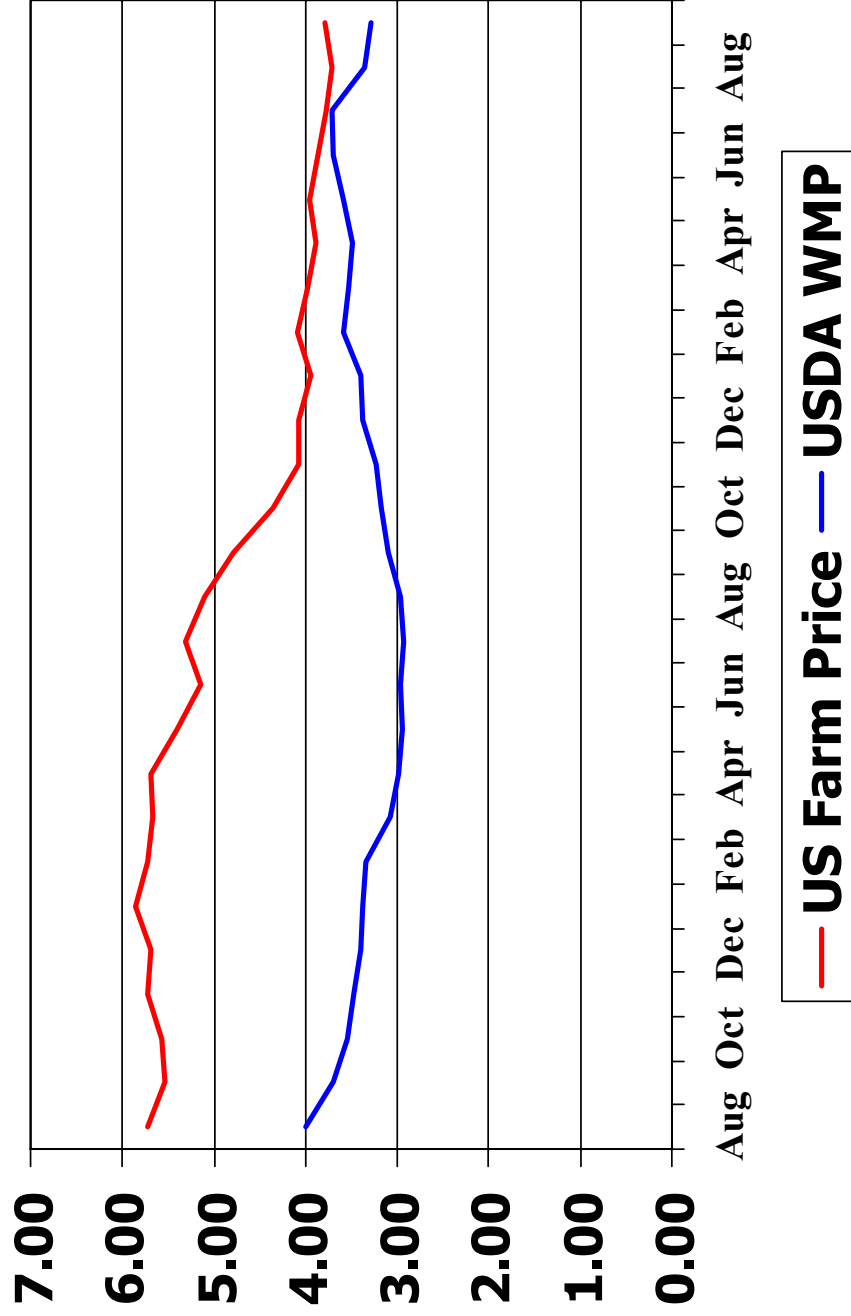
- In the event that rice is defaulted to the government, what is the policy that will be used to release stocks back to the market?
- When US stocks of rice are high and global stocks are on the decline, what is the longer run implication for the gap between the US and the adjusted world price?



REPRESENTATIVE FARMS

- Developed with producers to be representative of farms in major producing areas
- Brings sector level projections to the farm level
- Probability of cash flow deficits and real net worth declines

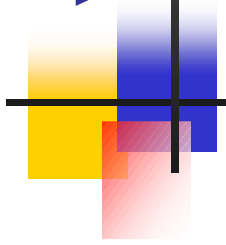
US Average and USDA Calculated World Market Rice Prices, \$/cwt., 2000-2002.



Economic Viability of Representative Rice Farms December 2002 Baseline

Farm Name	P(Cash Flow Deficit) 2002-2007	P(Real Net Worth Declines) 2002-2007
CAR424	99-99	1-99
CAR2365	99-99	1-94
CABR1000	99-99	1-91
CACR1420	99-99	1-99
TXR1553	99-99	1-99
TXR3774	99-99	1-92
TXBR1650	99-99	1-99
TXER3200	99-99	1-99
LASR1200	33-99	1-99
LANR2500	99-99	1-99
MOWR4000	63-84	1-43
MOER4000	1-57	1-2
ARSR3640	1-33	1-1
ARWR1200	99-99	1-99
ARHR3000	87-99	1-94
MSR4735	90-99	1-98





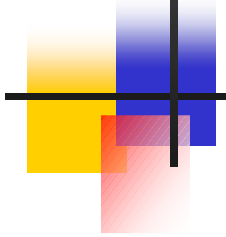
“Breakeven” Analysis

- Compares Landlord Returns from renting vs. not renting land.
 - Landlord takes DP and CCP (not renting)
 - Landlord share rents land at 25%
- 60 cwt FPY, 73 cwt actual yield
 - 517 acres of rice, 1500 acre farm
 - Farm did not update base



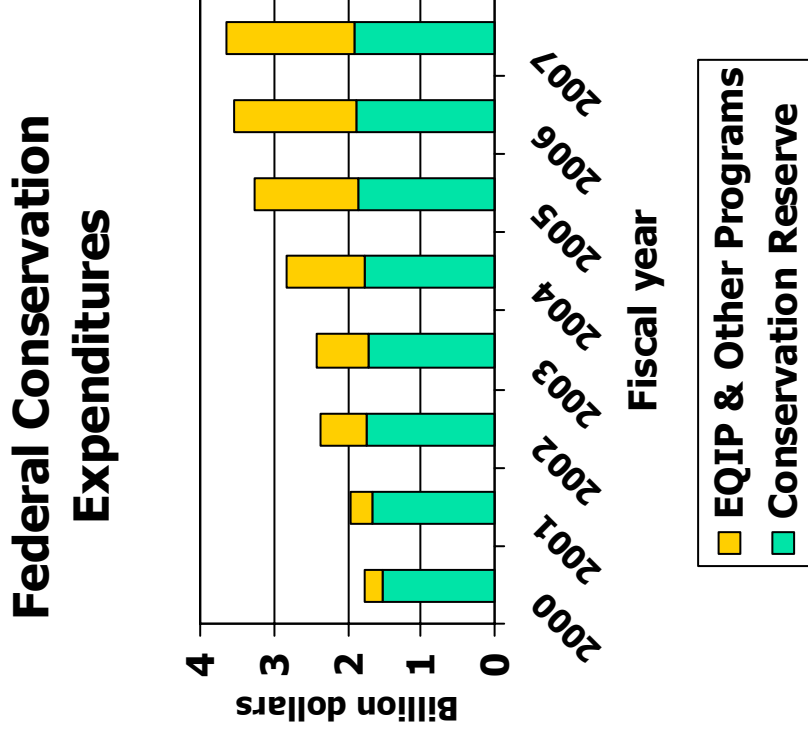
“Breakeven” Analysis (cont.)


- Assumes current projections of low prices, little premium
- \$7.00 loan rate, \$1.85 DP approximately equalize returns to landlord between 2 options
 - LDP paid on all production
 - DP, CCP on partial production



Conservation Programs

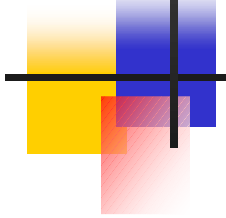
- New farm bill increases conservation spending by \$17.1 billion over FY 02-11
- Most of the increase is in EQIP and other programs for “working lands”





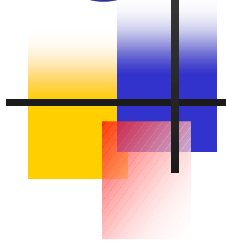
Environmental Quality Incentives Program (EQIP)

- Increased funding for existing program offering cost share, technical assistance
 - <\$200 million in 2001; \$1.3 billion in 2007
 - Some money available now under old rules
- Program changes in the farm bill
 - Payments available in contract year
 - No size limitation on livestock operations
 - \$450,000 payment limit over 6-year period
- USDA working on rules for 2003-2007



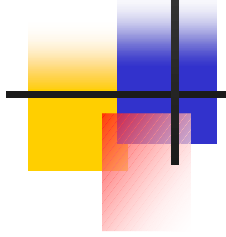
Conservation Reserve Program

- Cap increased from 36.4 million acres to 39.2 million acres
- To be eligible, land not already enrolled generally must have been planted or considered planted 4 of 6 years prior to May 13, 2002
 - Old law was 3 of 5 years prior to enrollment
- USDA says new sign up will occur in fiscal 2003, but still developing new rules




Conservation Security Program (CSP)

- New program created by farm bill to provide incentives for stewardship
 - Three tiers of payments, depending on number and type of conservation related activities
 - No cap on total federal spending—all producers meeting criteria are eligible (unlike EQIP)
- **USDA rule-making will be critical**
 - Right now, it's not clear precisely which practices will be eligible for payments



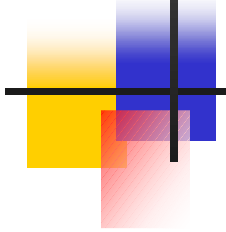
Other Conservation Programs

- Wetland Reserve Program increased to 2.275 million acres
- Grasslands Reserve Program
 - Up to 2 million acres in easements or 10-30 year rental agreements
 - Conserve and restore grassland, including land used for grazing
 - Another program where USDA must still write rules

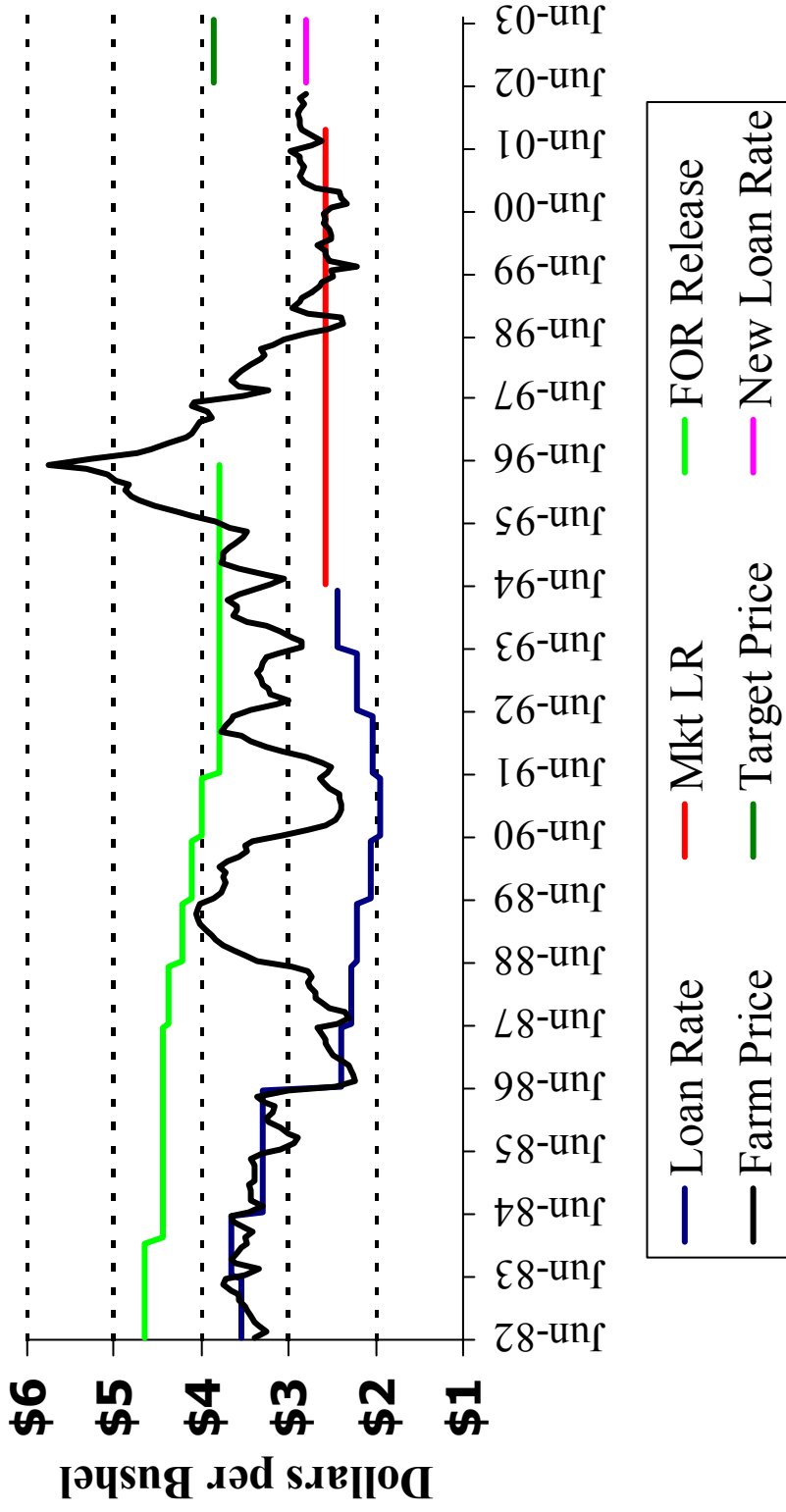


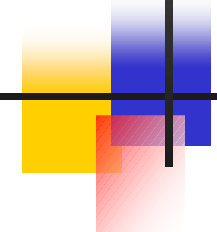
Milk Income Loss Contract Program - MILC

- Signup started Aug. 13, 2002, and ends Sept. 30, 2005
- Retroactive or transition period payments begin with Dec. 1, 2001 milk marketed
- Eligible milk capped at 2.4 million pounds per fiscal year (Oct. 1 – Sept. 30)
- Direct payment program that makes payments when the Boston Class I milk price falls below \$16.94 per cwt
- Official FSA Website - <http://www.fsa.usda.gov/dafp/psd/MILC.htm>



US Monthly Wheat Price

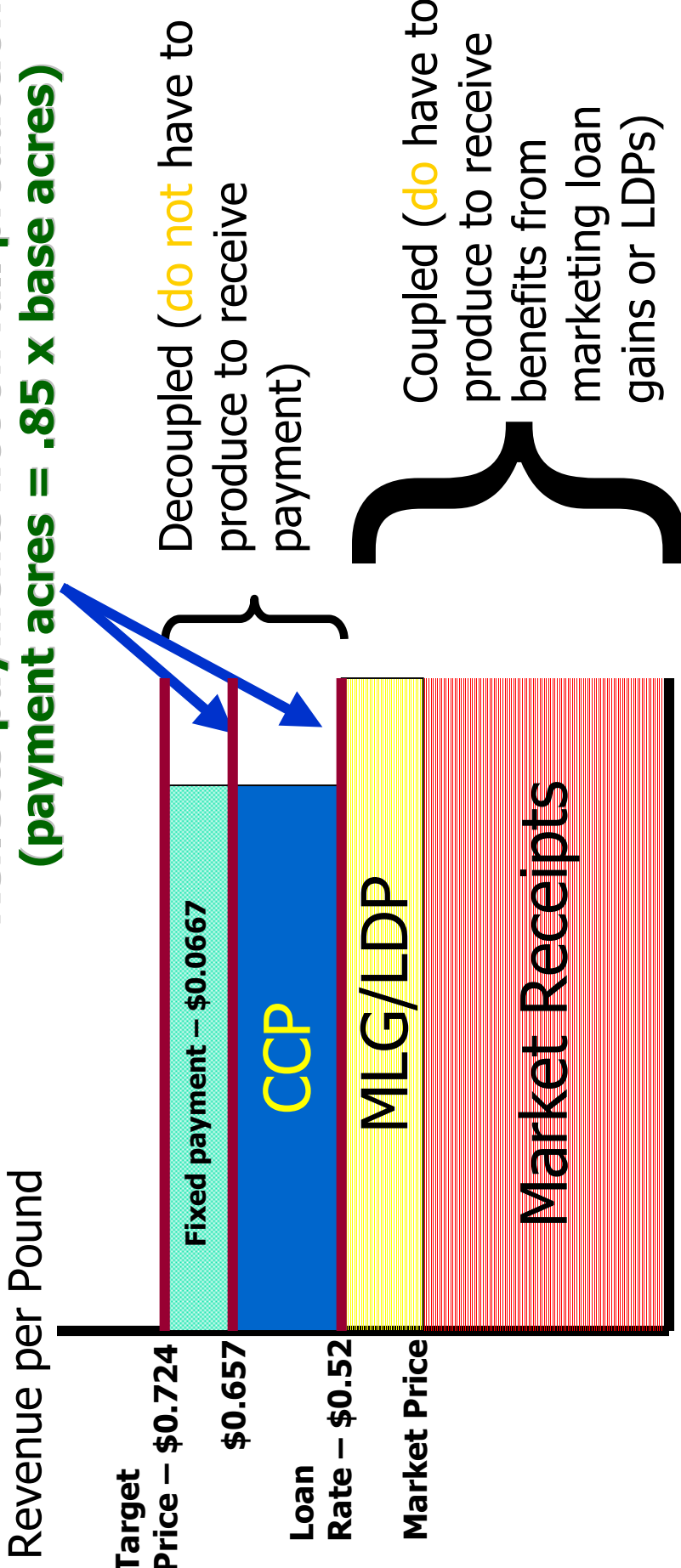




Distribution of Government Support

Example: Cotton

Reflects payments not on full production
(payment acres = .85 x base acres)



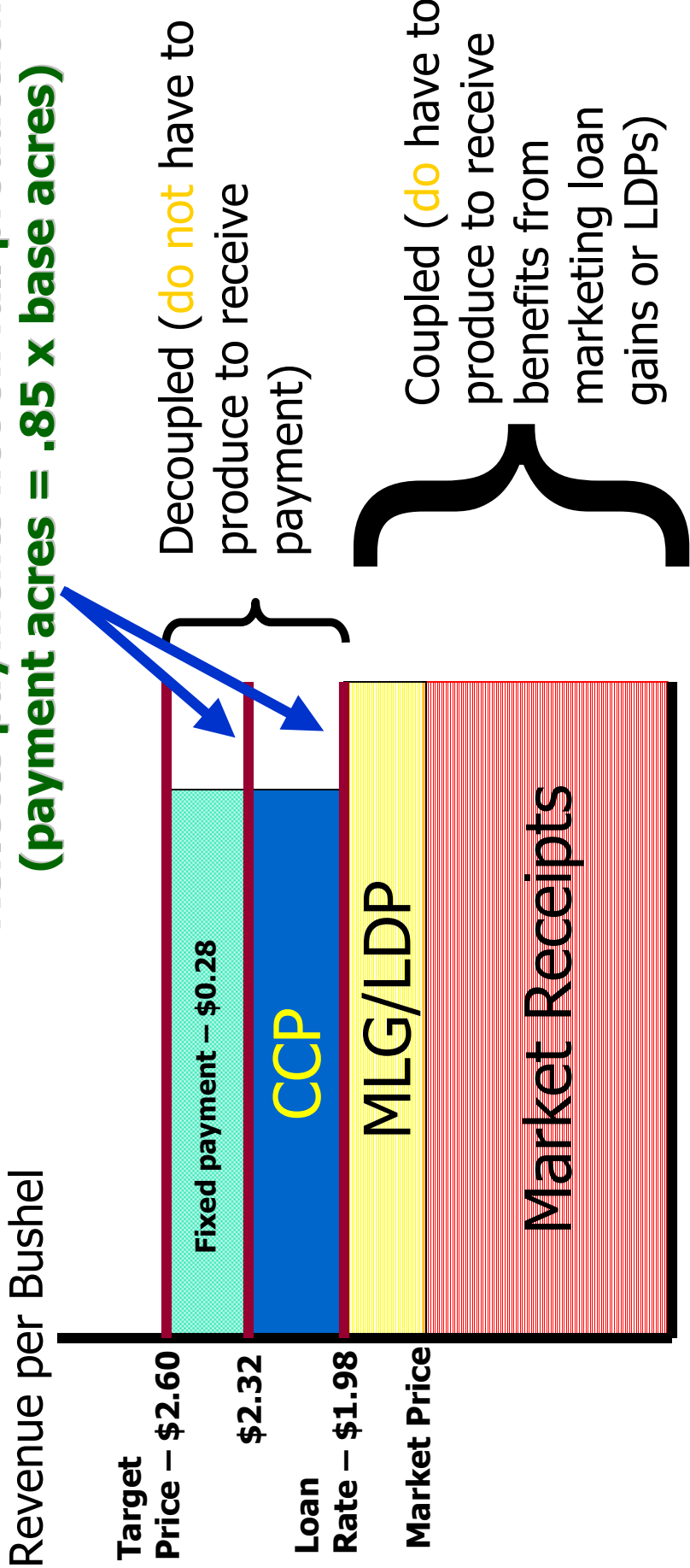
Effective Target Price – \$0.693 (assumes 100% planted base; actual yields = payment yields)



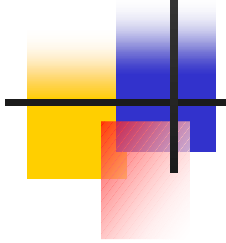
Distribution of Government Support

Example: Corn

Reflects payments not on full production
(payment acres = .85 x base acres)



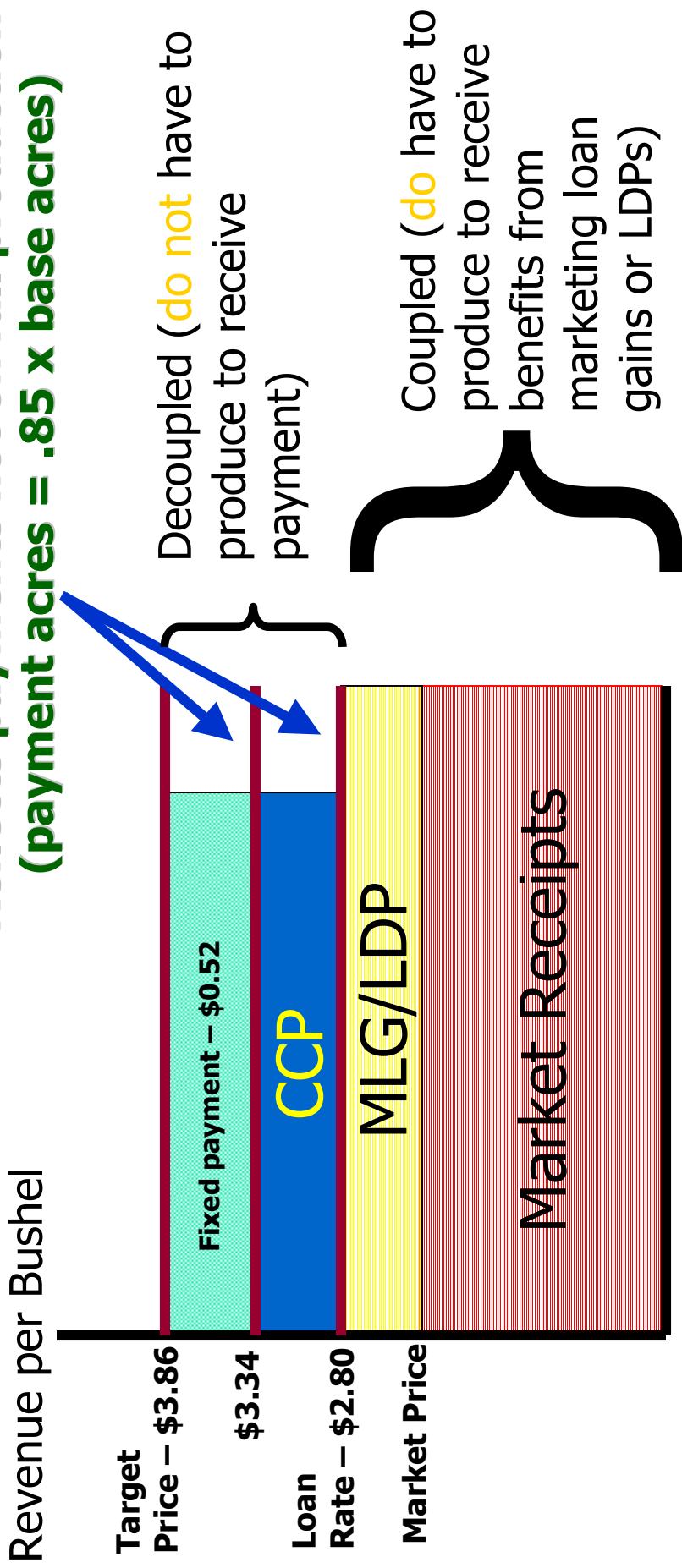
Effective Target Price - \$2.51 (assumes 100% planted base; actual yields = payment yields)³⁷



Distribution of Government Support

Example: Wheat

Reflects payments not on full production
(payment acres = .85 x base acres)

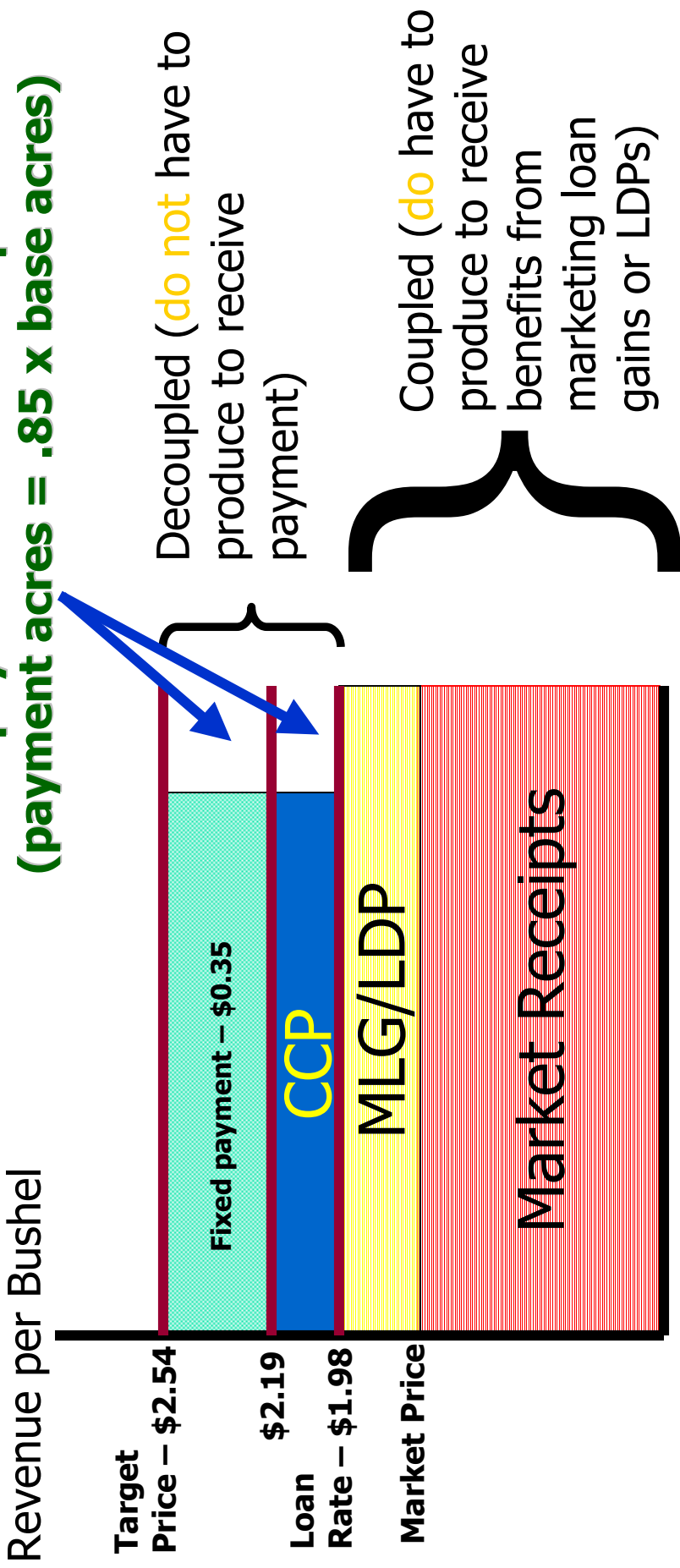


Effective Target Price – \$3.70 (assumes 100% planted base; actual yields = payment yields)³⁸

Distribution of Government Support

Example: Grain Sorghum

Reflects payments not on full production
(payment acres = .85 x base acres)



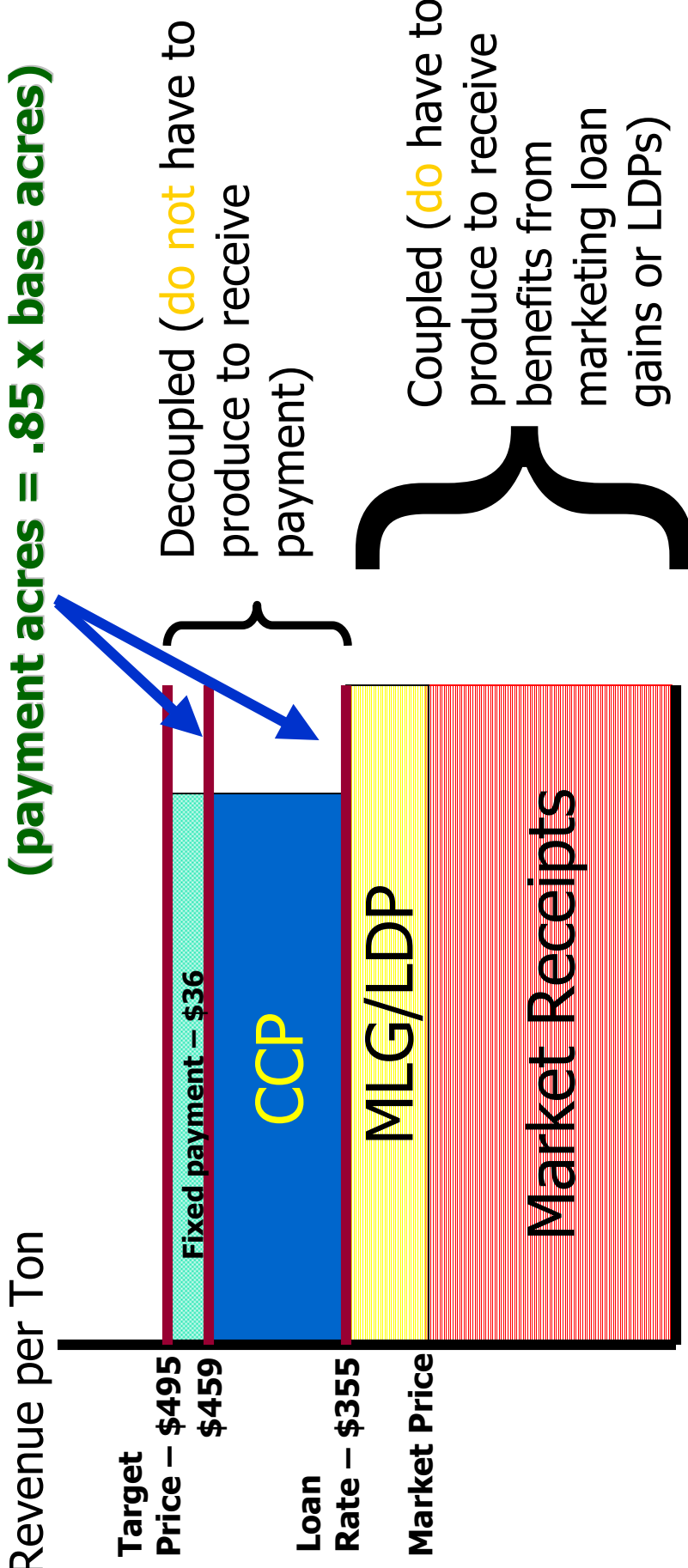
Effective Target Price - \$2.46 (assumes 100% planted base; actual yields = payment yields)39



Distribution of Government Support

Example: Peanuts

Reflects payments not on full production
(payment acres = .85 x base acres)



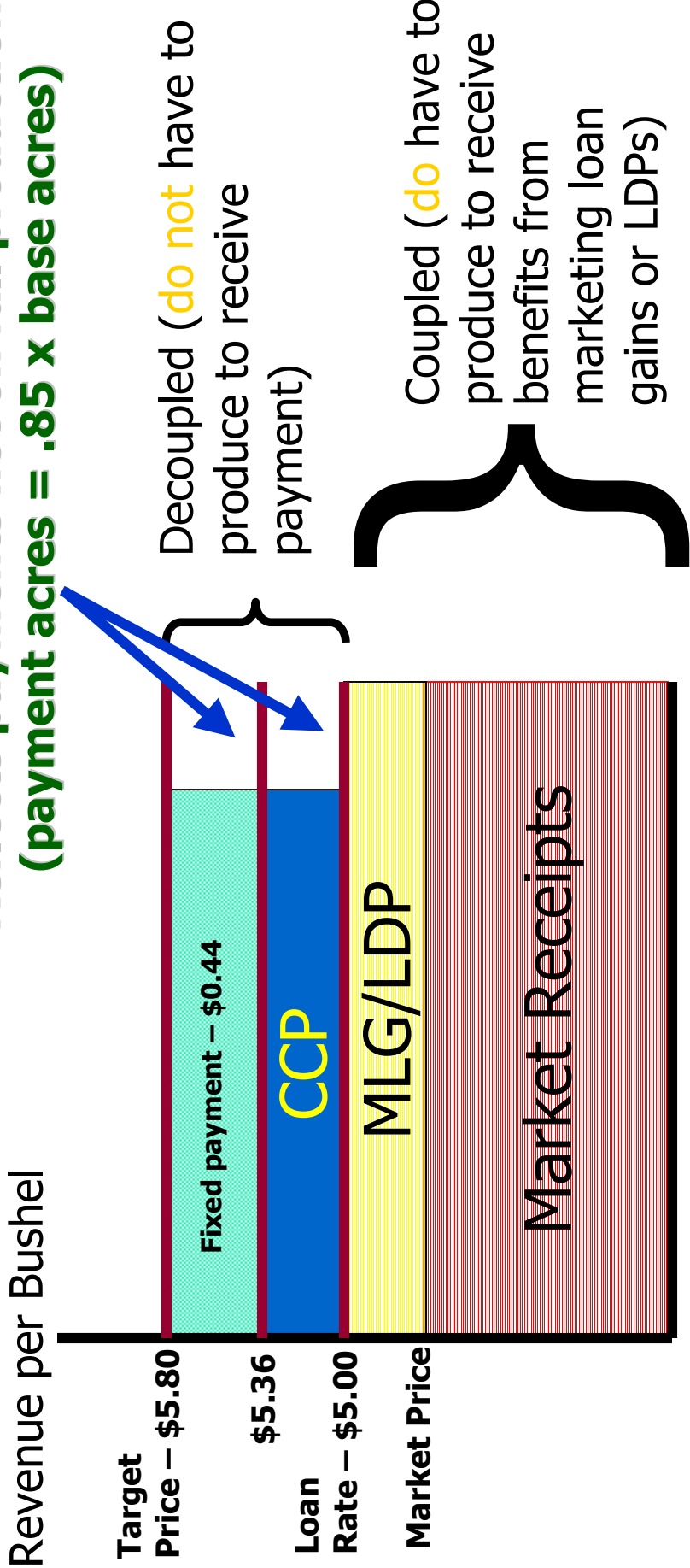
Effective Target Price – \$474 (assumes 100% planted base; actual yields = payment yields) 40



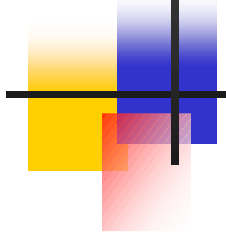
Distribution of Government Support

Example: Soybeans

Reflects payments not on full production
(payment acres = .85 x base acres)

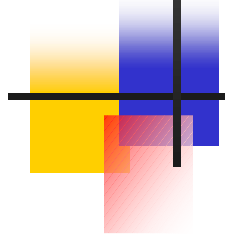


Effective Target Price — \$5.68 (assumes 100% planted base; actual yields = payment yields)⁴¹



Payment Limitations

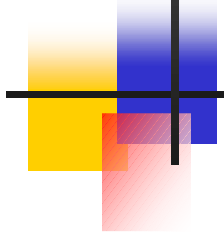
- Limits per “person” of
 - \$40,000 for direct payments
 - \$65,000 for counter-cyclical payments
 - \$75,000 LDPs and marketing loan gains
 - Separate limits for peanuts, conservation, and other programs
- Retains current rules on spouses, 3-entities, and generic certificates
- Adopts a \$2.5 million adjusted gross income cap on eligibility for participation in farm programs
- Creates a new commission to study and make recommendations regarding farm program payment limitations



Cotton Payment Schedule

	Month	Expected rate (at current market prices)	Maximum possible rate	No payment if price exceeds	Max payment if price less than
2002 Final Direct	Fall 2002*	6.67 ct./lb. - AMTA received	6.67 ct./lb. - AMTA received	n.a.	n.a.
2002 1st CCP	Oct. 2002*	4.806 ct./lb.	4.806 ct./lb.	65.73 ct./lb.	52.00 ct./lb.
2003 Advanced Direct	Dec. 2002*	3.335 ct./lb.	3.335 ct./lb.	n.a.	n.a.
2002 2nd CCP	Feb. 2003*	4.806 ct./lb.	9.611 ct./lb. - 1st CCP	65.73 ct./lb.	52.00 ct./lb.
2002 3rd CCP	Sep. 2003	4.119 ct./lb.	13.73 ct./lb. - 1st & 2nd CCPs	65.73 ct./lb.	52.00 ct./lb.
2003 Final Direct	Oct. 2003	3.335 ct./lb.	3.335 ct./lb.	n.a.	n.a.
2003 1st CCP	Oct. 2003	???	4.806 ct./lb.	65.73 ct./lb.	52.00 ct./lb.
2004 Advanced Direct	Dec. 2003	3.335 ct./lb.	3.335 ct./lb.	n.a.	n.a.

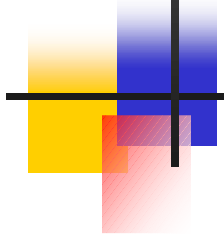
* Producers must sign up before these payments can be made



Sorghum Payment Schedule

	Month	Expected rate (at 8/02 USDA proj. prices)	Maximum possible rate	No payment if price exceeds	Max payment if price less than
2002 Final Direct	Fall 2002*	\$0.35/bu. minus AMTA received	\$0.35/bu. minus AMTA received	n.a.	n.a.
2002 1st CCP	Oct. 2002*	\$0.00/bu.	\$0.074/bu.	\$2.19/bu.	\$1.98/bu.
2003 Advanced Direct	Dec. 2002*	\$0.175/bu.	\$0.175/bu.	n.a.	n.a.
2002 2nd CCP	Feb. 2003*	\$0.00/bu.	\$0.147/bu. minus 1st CCP	\$2.19/bu.	\$1.98/bu.
2002 3rd CCP	Oct. 2003	\$0.00/bu.	\$0.21/bu. minus 1st & 2nd CCPs	\$2.19/bu.	\$1.98/bu.
2003 Final Direct	Oct. 2003	\$0.175/bu.	\$0.175/bu.	n.a.	n.a.
2003 1st CCP	Oct. 2003	???	\$0.074/bu.	\$2.19/bu.	\$1.98/bu.
2004 Advanced Direct	Dec. 2003	\$0.175/bu.	\$0.175/bu.	n.a.	n.a.

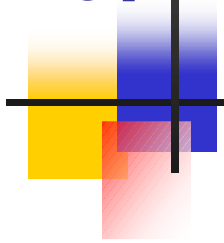
* Producers must sign up before these payments can be made



Wheat Payment Schedule

	Month	Expected rate (at 8/02 USDA proj. prices)	Maximum possible rate	No payment if price exceeds	Max payment if price less than
2002 Final Direct	Fall 2002*	\$0.52/bu. minus AMTA received	\$0.52/bu. minus AMTA received	n.a.	n.a.
2002 1st CCP	Oct. 2002*	\$0.00/bu.	\$0.189/bu.	\$3.34/bu.	\$2.80/bu.
2003 Advanced Direct	Dec. 2002*	\$0.26/bu.	\$0.26/bu.	n.a.	n.a.
2002 2nd CCP	Feb. 2003*	\$0.00/bu.	\$0.378/bu. minus 1st CCP	\$3.34/bu.	\$2.80/bu.
2002 3rd CCP	Jul. 2003	\$0.00/bu.	\$0.54/bu. minus 1st & 2nd CCPs	\$3.34/bu.	\$2.80/bu.
2003 Final Direct	Oct. 2003	\$0.26/bu.	\$0.26/bu.	n.a.	n.a.
2003 1st CCP	Oct. 2003	???	\$0.189/bu.	\$3.34/bu.	\$2.80/bu.
2004 Advanced Direct	Dec. 2003	\$0.26/bu.	\$0.26/bu.	n.a.	n.a.

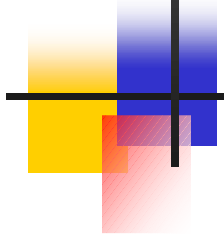
* Producers must sign up before these payments can be made



Soybean Payment Schedule

	Month	Expected rate (at 8/02 USDA proj. prices)	Maximum possible rate	No payment if price exceeds	Max payment if price less than
2002 Final Direct	Fall 2002*	\$0.44/bu.	\$0.44/bu.	n.a.	n.a.
2002 1st CCP	Oct. 2002*	\$0.00/bu.	\$0.126/bu.	\$5.36/bu.	\$5.00/bu.
2003 Advanced Direct	Dec. 2002*	\$0.22/bu.	\$0.22/bu.	n.a.	n.a.
2002 2nd CCP	Feb. 2003*	\$0.00/bu.	\$0.252/bu. minus 1st CCP	\$5.36/bu.	\$5.00/bu.
2002 3rd CCP	Oct. 2003	\$0.00/bu.	\$0.36/bu. minus 1st & 2nd CCPs	\$5.36/bu.	\$5.00/bu.
2003 Final Direct	Oct. 2003	\$0.22/bu.	\$0.22/bu.	n.a.	n.a.
2003 1st CCP	Oct. 2003	???	\$0.126/bu.	\$5.36/bu.	\$5.00/bu.
2004 Advanced Direct	Dec. 2003	\$0.22/bu.	\$0.22/bu.	n.a.	n.a.

* Producers must sign up before these payments can be made



Corn Payment Schedule

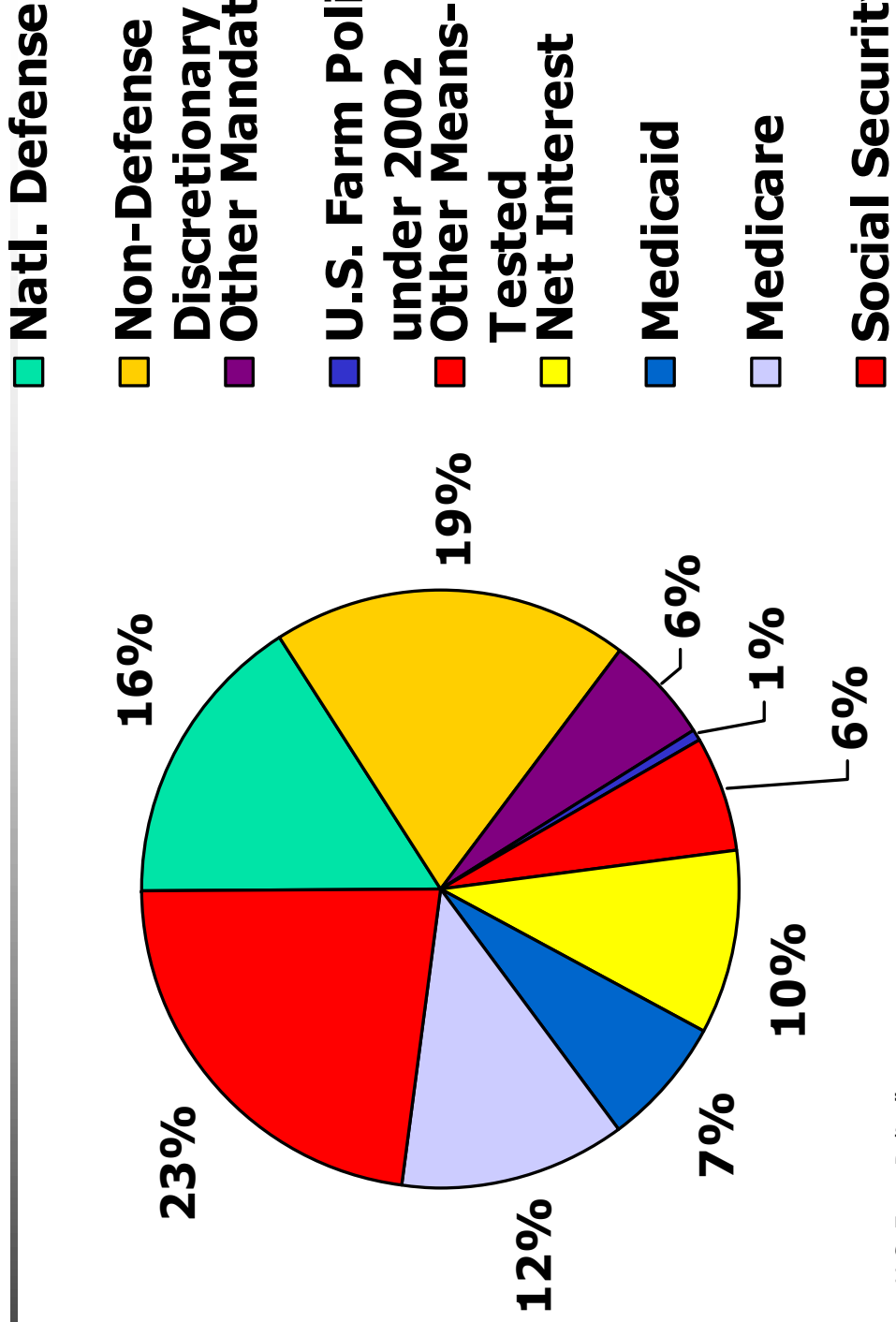
	Month	Expected rate (at 8/02 USDA proj. prices)	Maximum possible rate	No payment if price exceeds	Max payment if price less than
2002 Final Direct	Fall 2002*	\$0.28/bu. minus AMTA received	\$0.28/bu. minus AMTA received	n.a.	n.a.
2002 1st CCP	Oct. 2002*	\$0.00/bu.	\$0.119/bu.	\$2.32/bu.	\$1.98/bu.
2003 Advanced Direct	Dec. 2002*	\$0.14/bu.	\$0.14/bu.	n.a.	n.a.
2002 2nd CCP	Feb. 2003*	\$0.00/bu.	\$0.238/bu. minus 1st CCP	\$2.32/bu.	\$1.98/bu.
2002 3rd CCP	Oct. 2003	\$0.00/bu.	\$0.34/bu. minus 1st & 2nd CCPs	\$2.32/bu.	\$1.98/bu.
2003 Final Direct	Oct. 2003	\$0.14/bu.	\$0.14/bu.	n.a.	n.a.
2003 1st CCP	Oct. 2003	???	\$0.119/bu.	\$2.32/bu.	\$1.98/bu.
2004 Advanced Direct	Dec. 2003	\$0.14/bu.	\$0.14/bu.	n.a.	n.a.

* Producers must sign up before these payments can be made

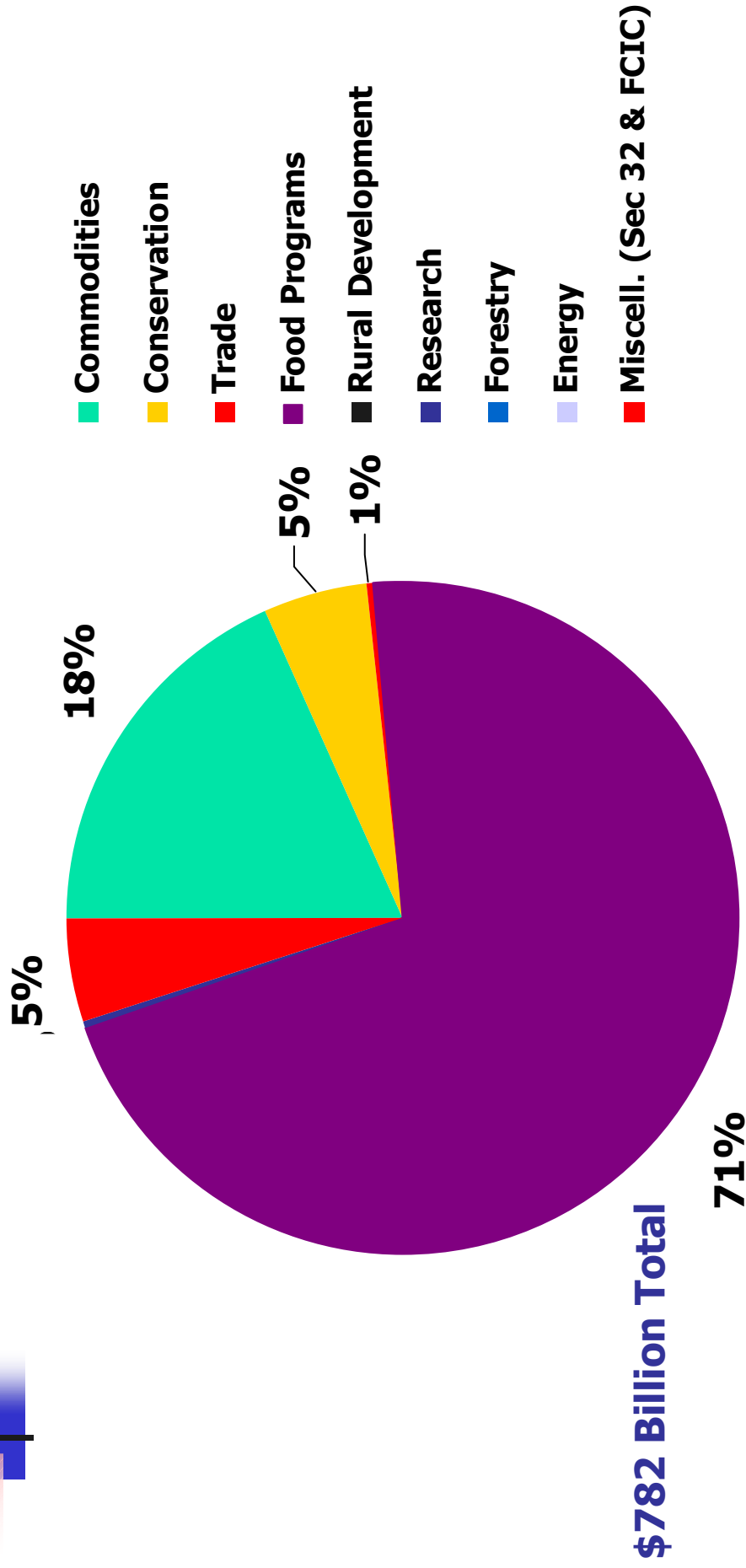
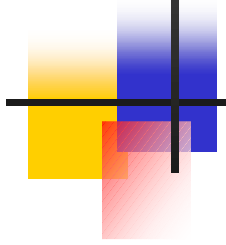
Allocation of U.S. Budget Outlays by Function

Estimated at \$24 trillion for next 10 yrs.

2002 Farm Bill \$135 billion for next 10 yrs.

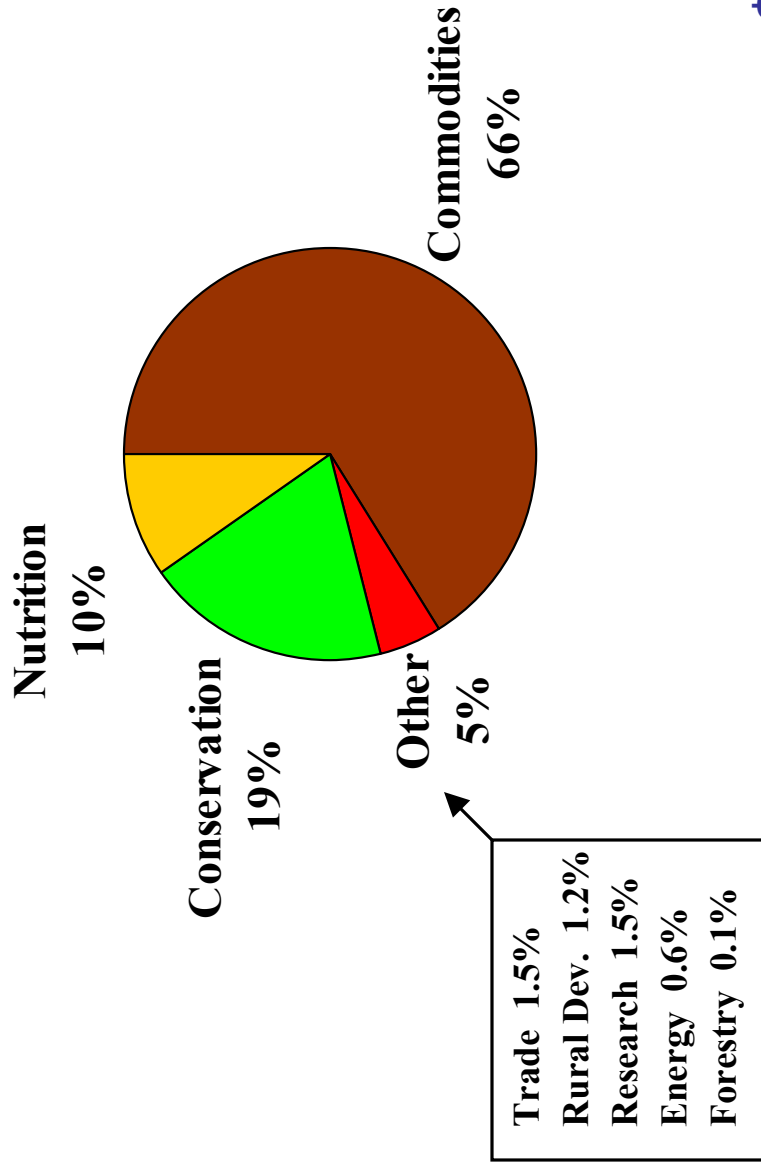


Share of Mandatory Program Spending by Farm Bill Title Budget Authority, FY 2002-11.

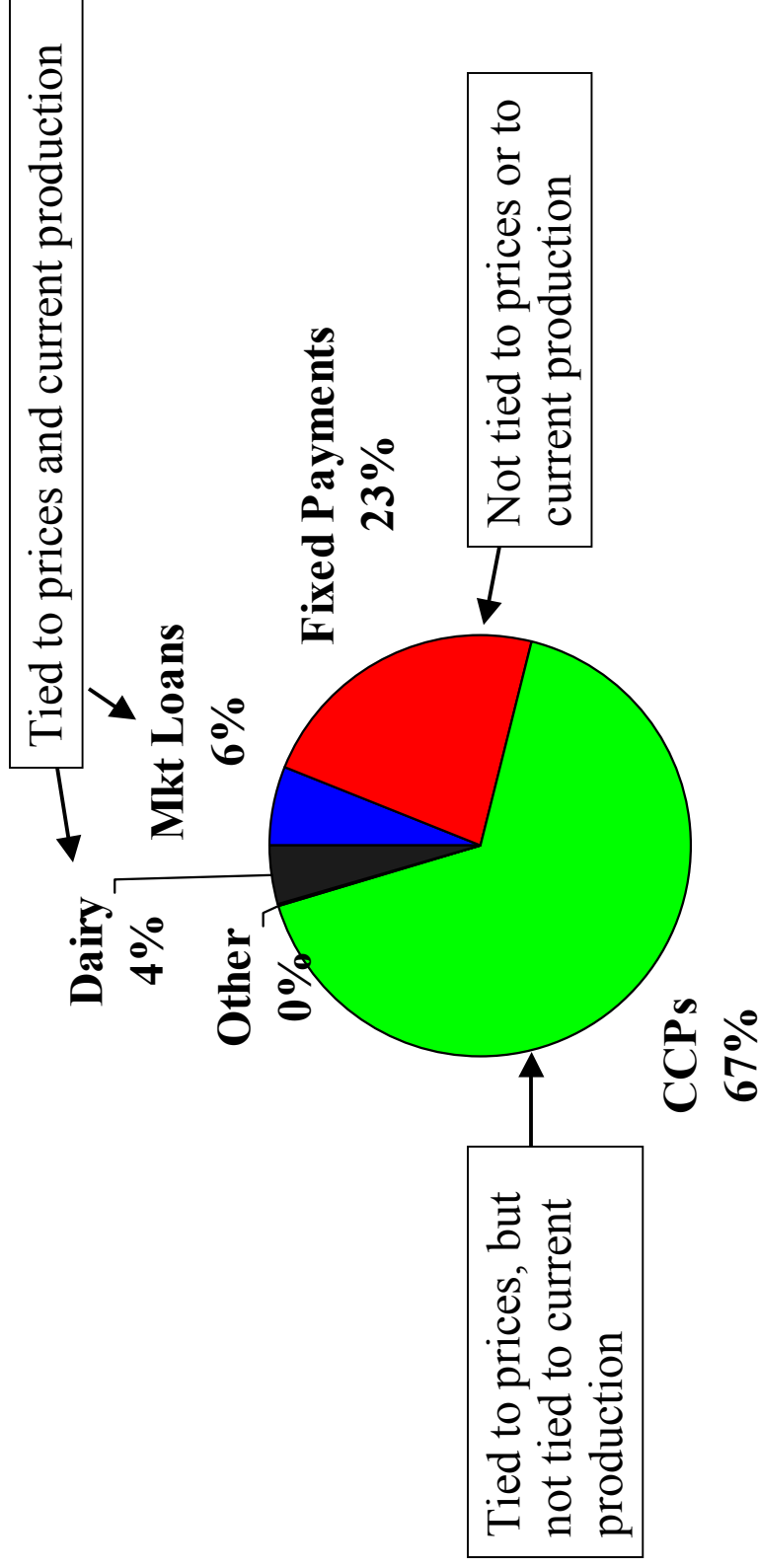


Does not include funding for discretionary programs which is provided through annual appropriations.
Based on CBO's March 2002 Baseline.

Distribution of Additional Spending (CBO Estimates)

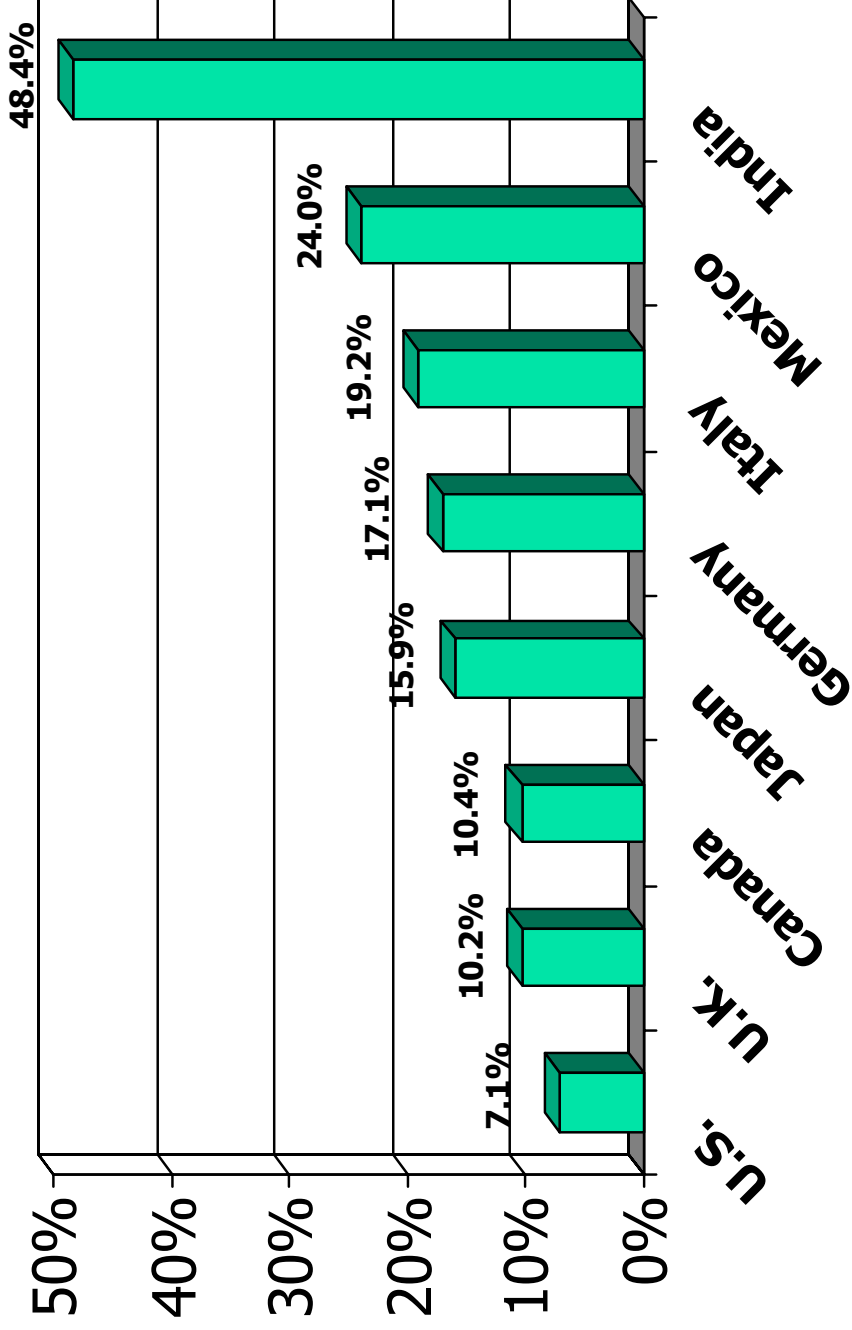


Distribution of the Increase in Commodity Spending (CBO)



\$46.5 Billion Total

Share of Personal Consumption Expenditures on Food, 1996



Source: USDA-ERS, 1999, Expenditures on food consumed at home.

Tariff Rates Around the World

