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**2002 Farm Bill Fact Sheet
For Grain, Pulse, and Oilseed Producers in Eastern Washington State**

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- ❑ The purpose of this paper is to compile into one source relevant information eastern Washington producers of grains, pulses, and oilseeds need to know in regards to the new 2002 Farm Bill. This paper centers specifically on the market loan program, direct payments, counter cyclical payments, and base acreage and yield update options. It does not get into what is “proven” acreage and yield, along with some other aspects that must be approved by the FSA office. The source of this information came from information provided by several different people: Mike Mandere, FSA, Whitman County; Brad Lubben, Kansas State Univ.; Jim Johnson, Montana State Univ.; Larry Makus, University of Idaho/WSU (sabbatical); and an occasional original thought by Herbert Hinman, Washington State University
- ❑ Recommended web sites for more detailed information regarding the entire 2002 Farm Bill are: <http://www.agecon.ksu.edu/agpolicy/> and <http://www.usda.gov/farmbill/> .
- ❑ This fact sheet can be found on the WSU Farm Management website at <http://farm.mngt.wsu.edu/>. Anytime a change in the fact sheet is made, the fact sheet will be dated as to the date of the change. Thus, if the fact sheet you currently have does not have the same date as that on the website, simply download that on the website.

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2002 Farm Bill Fact Sheet

For Grain, Pulse, and Oilseed Producers in Eastern Washington State

“Compromise equates into complexity.” - Mike Mandere, FSA, Whitman County

The 2002 Farm Bill, representing a collection of compromises between the House and Senate Bills, became law on May 13, 2002. It is a six year bill entitled “Farm Security and Rural Investment (FSRI) Act of 2002.”

The four aspects of the 2002 Farm Bill that will be reviewed:

The Market Loan Program
Direct Payments
Counter Cyclical Payments
Base Acreage and Yield Update Options

The Market Loan Program:

- Marketing assistance loans were a part of the 1985, 1990, 1996 and now the 2002 Farm Bill.
- Loan rates are set for 2002-2003, then decline for most commodities for 2004-2007.
- National average loan rates “locked in” by the 2002 FSRI Act.
 - Secretary has no discretion to raise or lower national average loan rates from year to year.
 - Secretary has the discretion to adjust loan rates across counties from year to year when changing previous loan rates to current loan rates.
- Newly covered commodities include: small chickpeas, lentils and dry peas.
- Beginning with the 2002 crop year the base county loan rates for wheat have been announced by class:
 - hard red spring (HRS)
 - hard red winter (HRW)
 - hard white wheat (HWW)
 - soft red winter (SRW)
 - soft white wheat (SWW)
 - durum (DUM)
- You need not be signed up for the Farm Program in order to participate in the Market Loan Program.
- You must meet conservation and wetland provisions under the Food Security Act of 1985 in order to participate in the Market Loan Program.

Marketing Assistance Loan Rates

Commodity	1996 FAIR Act National 2001 Loan Rate	2002 FSRI Act National Loan Rates		Whitman County 2002 Loan Rates
		2002-2003	2004-2007	
Corn (bu)	\$1.89	\$1.98	\$1.95	NA
Barley (bu)	\$1.65	\$1.88	\$1.85	\$2.14
Oats (bu)	\$1.21	\$1.35	\$1.33	NA
Wheat (bu)	\$2.58	\$2.80	\$2.75	
HRS				\$3.31
HRW				\$3.23
HWW				\$3.23
SWW				\$2.90
DUM				\$4.03
Small Chickpeas (cwt.)		\$7.56	\$7.43	NA
Lentils (cwt.)		\$11.94	\$11.72	NA
Dry Peas (cwt.)		\$6.33	\$6.22	NA
Canola (lb.)		\$0.0949	NA	NA
Rapeseed (lb.)		\$0.0947	NA	NA
Mustard Seed (lb.)		\$0.0988	NA	NA

Marketing Assistance Loan Mechanics

- Coupled to both annual price and annual production. Based on actual yield and on actual acres planted for the year.
- Producer can take the Loan Deficiency Payment (LDP) or take out a marketing assistance loan for most commodities for duration of 9 months beyond the month of inception and receive the county loan rate on eligible commodities.
 - Last day to apply for a LDP or for a loan on wheat and barley is March 31.
 - Last day to apply for a LDP or for a loan on peas and lentils is May 31.

- ❑ The Posted County Price (PCP) is the higher of two relevant terminal market prices from the previous business day's market minus the county differential.
 - Example: Portland Price for SWW wheat (the higher of two relevant terminal markets) is \$4.50/bu. County differential is \$0.50/bu. PCP is \$4.00/bu.
 - County differential is based on transportation cost, local demand, and basis patterns.

- ❑ The producer can repay the market assistance loan in the following ways:
 - Repay the loan prior to maturity at the PCP if PCP is below loan rate plus interest, at which point they recognize a marketing loan gain (MLG equal to loan rate minus PCP; forgiven interest doesn't count as a gain).
 - A PCP can be locked in once for 60 days and the loan repaid anytime in the 60 days at that locked-in PCP.
 - If loan not repaid in that 60 days, locked-in PCP expires and loan can be repaid at that day's PCP.
 - Repay the loan prior to maturity at loan rate plus interest if PCP is above loan rate plus interest.
 - Hold the loan to maturity and repay at loan rate plus interest.
 - Hold the loan to maturity and forfeit commodity to government.
 - Repay the loan prior to maturity at PCP if PCP is below loan rate by using generic certificates. Essentially, the producer buys X dollars worth of certificates from the Commodity Credit Corporation (CCC) sufficient to repay the loan at the PCP ($PCP * bushels = X \text{ dollars}$). This is just a money-changing exercise, but the gains to the producer under this method are not subject to payment limits. The gains are still realized in the amount of the loan rate minus PCP, but they are not called marketing loan gains and are not subject to limits.

- ❑ Loan Deficiency Payment (LDP) is equal to the county loan rate minus the PCP.
- ❑ Total LDP for covered commodity (assuming County Loan Rate > PCP):

$$(\text{County Loan Rate} - \text{PCP}) \times \text{Actual Per Acre Yield} \times \text{Acres Harvested} = \text{Total LPD}$$
- ❑ LDP + MLG payment limitation of \$75,000 per person.

Direct Payments:

- Terms:
 - PFC = Production Flexibility contract of the 1996 Farm Bill.
 - PFC acres = contract acreage used to calculate the 2002 PFC payment under the 1996 Farm Bill.
 - PFC yields = payment yields established for the 1995 crop covered under the 1990 Farm Bill.
 - Payment yields under previous farm programs have been frozen since 1985.
 - Reflective of the 1981 - 1985 production period.
- Payments are decoupled from price and production.
- Payment acres = 85% of base acres:
 - “old” (PFC) or “updated” acreage base (see Base Acre Update Options on page 7)
- Payment yield
 - “old” (PFC) yield base except for oilseeds.
 - “old” (PFC) yield base for canola, rapeseed, safflower and mustard seed will be the average 1998-2001 proven yield factored by .78 to reflect 1981-1985 yields. (See Payment Yield Options on page 11)
- Direct payments for eastern Washington covered commodities:

<u>Commodity</u>	<u>Direct Payment</u>
Wheat	\$0.52/bu.
Corn	\$0.28/bu.
Barley	\$0.24/bu.
Oats	\$0.024/bu.
Oilseeds	\$0.80/cwt.

- Payment rates are fixed through 2007.

Payment calculation

$$\begin{array}{r}
 \text{Fixed payment} \\
 \text{rate} \\
 \times \text{ Payment acres} \\
 \times \text{ Payment yield} \\
 \hline
 = \text{ Direct payment}
 \end{array}$$

Payment limitation of \$40,000 per person.

2002 "Top Off" Payments

- 2002 direct payments (under new program) - 2002 PFC payments already received = "Top Off" Payment.
- Farms nonparticipating in 2002 PFC, if enrolled in new 2002 Farm Program will get the full 2002 direct payments.

Do not need to produce to collect direct payment.

Can produce more than acreage base and still collect direct payment on payment acres.

Advanced payments:

- Limited to 50%
- Beginning in December of year before harvest.
- Any month can be selected.

Final payment made in October of year of harvest.

Counter-Cyclical Payments:

Payments are decoupled from production, but not from price.

Target prices fixed for 2002-2003, rise for most commodities for 2004-2007.

Crop	2002-2003	2004-2007
Corn \$/bu.	2.60	2.63
Wheat \$/bu.	3.86	3.92
Barley \$/bu.	2.21	2.24
Oats \$/bu.	1.40	1.44
Canola \$/lb.	.098	.101
Rapeseed \$/lb.	.098	.101
Mustard seed \$/lb.	.098	.101

- ❑ For covered commodities, the counter-cyclical payment rate is the difference between the target price and the effective price. The effective price = fixed direct payment + higher of :
 - national loan rate, or
 - 12-month marketing year average price.
- ❑ Wheat example
 - Target price \$3.86
 - Loan rate \$2.80
 - Fixed payment rate \$0.52
 - If the 12-month average price is \$2.75, then the counter-cyclical payment rate would be: $\$3.86 - (\$2.80 + \$0.52) = \0.54
 - If the 12-month average price is \$2.85, then the counter-cyclical payment rate would be: $\$3.86 - (\$2.85 + \$0.52) = \0.49
 - The “trigger price” is the price below which counter-cyclical payments kick-in.

$$\begin{array}{rccccccc} & & \text{Target price} & - & \text{Direct payment} & = & \text{Trigger price} \\ \text{Wheat example:} & & \$3.86 & - & .52 & = & \$3.34 \end{array}$$

- ❑ Acreage base determined by landowner (See Base Acre Update Options on page 9)
- ❑ Payment base equal to 85 percent of acreage base.
- ❑ Yield base determined by landowner (see Payment Yield Options on page 14).
- ❑ Payment limitation \$65,000 per person.
- ❑ 12-month average price driven off price received by farmers:
 - NASS reports prices each month
 - FSA will use NASS reported prices in calculating counter-cyclical rates.
- ❑ National average loan rate sets maximum counter-cyclical rate.
- ❑ Counter-Cyclical Payment Timing
 - First partial payment - if applicable
 - Up to 35 percent of the projected counter-cyclical payment
 - Payment made in October of the year of harvest (after program sign-up for 2002 payment).

- Second partial payment - if applicable
 - Up to 70 percent of the projected counter-cyclical payment minus the first partial payment
 - Payment made in the following February (after program sign-up for 2002 payment if sign-up not complete by February 2003)
- Final payment - if applicable
 - The actual counter-cyclical payment minus the first two partial payments
 - Payment made after the end of the 12-month marketing year for the crop
 - July for wheat, barley and oats
 - October for corn
 - No counter-cyclical payments for canola, rapeseed or mustard seed (with given loan rate and direct payment it is mathematically impossible)
- Do not have to produce to collect counter-cyclical payments.

Month-Year	Wheat Barley Oats	Corn Sorghum Soybeans	Canola Rape Seed Mustard Seed
Fall 2002	2002 1st Adv CC 2002 Final Direct	2002 1st Adv CC 2002 Final Direct	2002 Final Direct
Dec 2002	2003 Adv Direct	2003 Adv Direct	2003 Adv Direct
Feb 2003	2002 2nd Adv CC	2002 2nd Adv CC	
Jul 2003	2002 Final CC		
Oct 2003	2003 1st Adv CC 2003 Final Direct	2002 Final CC 2003 1st Adv CC 2003 Final Direct	2003 Final Direct
Feb 2004	2003 2nd Adv CC	2003 2nd Adv CC	
Jul 2004	2003 Final CC		
Oct 2004		2003 Final CC	

Note: CC - counter-cyclical Adv - Advance

Fruit and Vegetable Restrictions (FAV's):

- ❑ 2002 Act maintains planting flexibility except for FAV's.
 - FAV's do not include dry peas, lentils, or mung beans.
 - FAV's do include green peas and garbanzo beans.
 - The producer can grow any fruit or vegetable on free acres, which are equal to effective crop acres on the farm minus base acres enrolled in the Direct and Counter-Cyclical Payment (DCP) Program.
 - The producer can grow a specific fruit or vegetable on base acres, if they have a history of growing that specific fruit or vegetable and they reduce their base acre-for-acre in the year they grow the specific fruit or vegetable. The actual restriction applies only to the harvesting year.
 - The producer can grow any fruit or vegetable on base acres without a history of growing the fruit or vegetable only if they choose not to enroll in the DCP program for the given year. Again, it is the harvest year that is in violation.

Base Acre Update Options:

- ❑ Owners of a farm will have a one-time opportunity to make a selection of base acreage on a farm. Failure of an owner(s) to make a base selection by the prescribed time period (October 1, 2002 – April 1, 2003) will result in a farm's base being defaulted to the 2002 PFC base acres plus oilseed acres, if applicable. All previous power of attorney authorizations are null and void. If an owner desires to give power of attorney in selecting base acreage updates, a new power of attorney must be signed in accordance with FSA rules and regulations.
- ❑ The following is a brief explanation of the 5 different options available to owners for selecting bases on a farm under the 2002 Act:
 - Base Option 1 - Retain 2002 PFC Acres.
 - Base Option 2 - Retain 2002 PFC Acres and add oilseeds without PFC offset. (See Oilseeds section below)

- o Base Option 3 - Retain 2002 PFC Acres and add oilseeds with maximum PFC offset. (See Oilseeds section below)

- o Base Option 4 - Update a farm's base using the average of the 1998-2001 planted and prevented planted acreage of each covered commodity on the farm. Prevented planted acreage is acreage that was intended to be planted and harvested but was not due to some natural cause such as a freeze out or a flood.

- o Base Option 5 - Retain 2002 PFC and add oilseeds with less than the maximum PFC offset. (See Oilseeds section below)

- Owner(s) must select the same base option for all commodities on the same farm. The total base acres on a farm shall not exceed the cropland on the farm by more than the eligible double cropping acreage for the farm. Base and yield selections will be made as to farm number and based on how the farm is constituted in 2002.

- Oilseeds (Base Options 2, 3, and 5)
 - o Owners may select to add oilseed acres to existing PFC acres under Base Options 2, 3, and 5. Oilseeds include soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, and mustard seed. Oilseed base can be added to an existing PFC base with the following limitations:
 - Eligible oilseed acreage is limited to the lesser of, but not less than zero, 1) the four year average of each year's total planted and prevented planted acreage for all wheat, feed grains and oilseeds on the farm minus the total 2002 PFC acreage, or 2) the 1998-2001 average planted and prevented planted acreage for oilseeds.
 - Oilseed base acreage is crop specific. The total eligible oilseed base acreage for a farm cannot exceed each specific oilseed's historical average acreage for the farm.

 - o Owners may elect to offset PFC acreage with oilseed acreage. The PFC offset option is limited to Base Options 3 and 5. The PFC offset will be on an acre for acre basis. Owners will select which PFC base(s) to offset and which oilseed base(s) to increase. PFC offset acreage will be limited to the difference between the total average oilseed history minus the eligible oilseed base.

❑ Base Option Selection Example #1

- o This is an example of what a Base Option Report would look like for a farm with 640 acres of cropland that has PFC acres and acreage history for wheat, barley and canola.

Table 1

Commodity	1998	1999	2000	2001	1998-01 Average	2002 PFC Acres
Wheat	320	300	320	300	310	320
Barley	160	100	80	80	105	160
Canola	40	100	40	60	60 (3)	
Total Planted Oil	40	100	40	60	60 (3)	
Total Planted Non Oil	480	400	400	380	415	
Total Planted	520	500	440	440	475	
PFC Acres	480	480	480	480	480	
Planted Minus PFC (1)	40	20	0	0	15	
Eligible Oilseeds (2)					15	

- (1) Cannot be less than zero
- (2) Eligible oilseeds is the smaller of the four year average of each year's total planted acres minus PFC acres, or the 1998-2001 average planted and prevented planted oilseed acres.
- (3) Maximum oilseed base for the farm

Table 2

Base Option	Wheat Base	Barley Base	Canola Base	Total Base
1	320	160	NA	480
2	320	160	15	495
3	320	115	60	495
4	310	105	60	475
5	320	135	40	495

- o Explanations

- Base Option 1 -- Owner elected Base Option 1 and keeps the current PFC acres as the new base for the farm.
- Base Option 2 -- In this example the owner added the “Eligible Oilseeds” from Table 1.
- Base Option 3 -- In this example the owner chose to add the maximum oilseed acreage for base. The maximum the owner can add in this example is 60 acres of canola which is the 4 year average of canola acreage on the farm. The eligible oilseeds that can be added to the farm without PFC offset is 15 acres. In this example, the owner chose to offset 45 acres of barley base so the 45 acres of canola (in addition to the 15 acres the owner can add without offsetting PFC acres) can be added for a total of the 60-acre maximum. An owner will have the ability to choose which base they want to offset when adding oilseed base under Base Options 3 and 5.
- Base Option 4 -- In this example, the owner chose to update bases on the farm by using the 1998-2001 planted acreage. Owners selecting this option, and only this option, will have the ability to partially update yields for counter-cyclical payments.
- Base Option 5 -- In this example, the owner chose to add 40 acres of canola base, which is between the eligible of 15 acres and the maximum of 60 acres. The owner also chose to offset 25 acres of barley base in addition to the 15 acres that can be added without PFC offset. This owner could have chosen to offset the wheat base under this example as well, or a combination of wheat and barley.

- Base Option Selection Example #2

- o This is an example of what a Base Option Report would look like for the same farm above whose 1998 – 2001 acreage history for wheat, barley and canola has continually exceeded its PFC acres.

Table 3

Commodity	1998	1999	2000	2001	1998-01 Average	2002 PFC Acres
Wheat	400	350	400	400	388	320
Barley	160	150	150	100	140	160
Canola	40	100	50	100	72 (3)	
Total Planted Oil	40	100	50	100	72 (3)	
Total Planted Non Oil	560	500	550	500	528	
Total Planted	600	600	600	600	600	
PFC Acres	480	480	480	480	480	
Planted Minus PFC (1)	120	120	120	120	120	
Eligible Oilseeds (2)					72	

- (1) Cannot be less than zero
- (2) Eligible oilseeds is the smaller of the four year average of each year's total planted acres minus PFC acres, or the 1998-2001 average planted and prevented planted oilseed acres.
- (3) Maximum oilseed base for the farm

Table 4

Base Option	Wheat Base	Barley Base	Canola Base	Total Base
1	320	160	NA	480
2	320	160	72	552
3	320	160	72	552
4	388	140	72	600
5	320	160	72	552

- Explanations

- Base Option 1 -- Owner elected Base Option 1 and keeps the current PFC acres as the new base for the farm.
- Base Option 2 -- In this example the owner added the "Eligible Oilseeds" from Table 3.

- Base Option 3 -- In this example the owner chose to add the maximum oilseed acreage for base. The maximum the owner can add in this example is 72 acres of canola which is the 4 year average of canola acreage on the farm. The eligible oilseeds that can be added to the farm without PFC offset is also 72 acres. Thus, in this example, the base acreage allocations for Base Options 2, 3 and 5 are all the same.
- Base Option 4 -- In this example, the owner chose to update bases on the farm by using the 1998-2001 planted acreage. Owners selecting this option, and only this option, will have the ability to partially update yields for counter-cyclical payments.
- Base Option 5 -- In this example, since the eligible acres and the maximum canola base acreage are the same, the base acreage allocations for Base Options 2, 3 and 5 are all the same.

Payment Yield Options:

- The Act provides for a one-time opportunity for owners to update yields for the Counter-Cyclical Payment Program if Base Option 4 is selected. If an owner selects any base option other than Option 4, the counter-cyclical yield will be equal to the direct payment yield. Regardless of base option selections, owners will not have the option to update direct payment yields. The direct payment yield will be the farm's current PFC yield.
- Owners enrolling a farm that did not previously have a PFC contract, or who are using Base Option 4 and will be establishing a base for wheat or feed grains for the first time will have a yield assigned to the farm by the County Committee. The yield will be based on 3 similar farms. County Committees will not assign yields for oilseeds. The method explained below will be used for determining oilseed yields.
- Oilseed Payment Yields
 - o Under the Act, oilseeds have been added as a covered commodity. Because oilseed payment yields were never established before, owners will be permitted to prove their oilseed yields for both direct and counter-cyclical payments. For each year in which the oilseed crop was planted, the proven farm yield is compared against 75% of the 4-year county average yield (the plug-in yield) and the higher of the two is used. The base yield is then a weighted average of the year-by-year yield calculated above, weighted by planted acreage on the farm in each given year, then factored down to reflect 1981-85 yields. Since, direct payment yields for wheat and feed grains are based on the current PFC yields, which were derived from 1981-85 proven yields, direct payment yields for oilseeds

must be factored to also reflect 1981-85 yields. FSA has established conversion factors for oilseeds to reflect 1981-85 yields. For direct payments, oilseed yields will be adjusted by the following factors:

Flax	.65
Soybeans	.78
Sunflowers	.80
All Other Oilseeds	.78

☐ Counter-Cyclical Payment Yields

- o Owners who select Base Option 4 and update a farm's bases using 1998-2001 acreage history will be given the opportunity to use a partially updated average yield for payment purposes. A minimum average yield will be available that is based on 75 percent of USDA National Agricultural Statistics Service's (NASS) 1998-2001 weighted average county yield. Producers who have an actual yield that is less than 75 percent of the county average, or who have missing or unacceptable production evidence, will be given 75 percent of the NASS County Average Yield.
- o Owners selecting Base Option 4 will be given the opportunity to select one of the following methods for partially updating counter-cyclical yields:
 1. 70 percent Partial Update (Direct yield plus 70 percent of the difference between the direct payment yield and the farm's 1998-2001 average yield).
 2. 93.5 percent Partial Update (93.5 percent of the farm's 1998-2001 average yield).
 3. Maintaining the current direct payment yield (2002 PFC payment yield for wheat and feed grains or the farm's average yield for oilseeds adjusted by the 1981-85 historic yield factor).
- o The same method must be used for all crops on the farm. Owners selecting Base Options 1, 2, 3 or 5 will have a counter-cyclical payment yield equal to their direct payment yield.

o Example

- Owner selects Base Option 4 and has a PFC payment yield of 64 bushels per acre for wheat and the farm has a 1998-2001 average yield of 85 bushels per acre.
- Direct Payment Yield = 64
- Counter-Cyclical Payment Yield Options:
 1. Direct Payment Yield of **64**
 2. 70 Percent Partial Update
Step 1. $(85 - 64 = 21)$ Step 2. $(21 \times .70 = 14.7)$.
Step 3. $(14.7 + 64 = 78.7)$ or **79**
 3. 93.5 Percent Partial Update $(85 \times .935 = 79.5)$ or **80**

Web Based Base and Yield Option Analysis Tools:

Texas A&M University has worked with FSA to develop an online analysis tool that helps producers and owners evaluate options under the 2002 Act. The FSA version is available on the FSA web site at <http://www.fsa.usda.gov> .

The Farm Bill Decision Tool is a Microsoft Excel spreadsheet that estimates direct and counter-cyclical payments for each of the five options farmers and landowners will have to choose between in order to get governmental payments under the 2002 Farm Bill. The current version (4.0) formats output more closely to the way option choices will be presented on Farm Service Agency forms.

The tool is available in the Policy section of farmdoc:

<http://www.farmdoc.uiuc.edu/manage/FarmBill/decisiontool.html>

A paper describing the five options also is on farmdoc:

http://www.farmdoc.uiuc.edu/manage/newsletters/fefo02_16/fefo02_16.html

Farm Bill Worksheet developed by Kansas State University can be found at: <http://www.agecon.ksu.edu/agpolicy/> .