

# Successful **Farming**<sup>®</sup>

## MANAGING RISK AFTER THE ETHANOL BOOM

Presented by Dan Looker, Business Editor

# DUELING ECONOMISTS



# COST CUTTING CRUSADER



Tom Coburn, Oklahoma Senator

# ENVIRONMENTAL ACTIVIST



Ken Cook, President of Environmental Working Group

# AGAINST EVERYBODY ELSE



# ANTI-CROP INSURANCE AMMO

Twenty-six (26) policyholders got more than \$1 million dollars in premium subsidies in 2011.

State	Number of policyholders* with a premium subsidy more than:				
	\$1,000,000	\$500,000	\$250,000	\$100,000	\$65,000
Alabama	0	0	14	138	287
Alaska	0	0	0	0	0
Arizona	0	1	13	65	108
Arkansas	3	6	32	195	402
California	2	9	43	190	333
Colorado	0	0	39	234	476
Connecticut	0	0	0	7	15
Delaware	0	0	2	27	54
Florida	3	6	23	74	138
Georgia	4	7	23	225	497
Hawaii	0	0	0	1	2
Idaho	0	4	18	74	145
Illinois	1	16	62	490	1,211
Indiana	1	5	25	301	839
Iowa	0	4	40	294	858
Kansas	0	3	52	485	1,336
Kentucky	1	5	33	189	415
Louisiana	0	2	19	152	289
Maine	0	0	0	6	18
Maryland	1	2	7	50	110
Massachusetts	0	0	0	2	6
Michigan	0	2	19	168	424
Minnesota	3	11	54	563	1,452
Mississippi	1	5	40	315	552
Missouri	1	3	36	400	897
Montana	1	1	9	154	383
Nebraska	1	9	43	347	960
Nevada	0	1	3	6	7
New Hampshire	0	0	0	0	1
New Jersey	0	0	0	8	14
New Mexico	1	2	14	54	93
New York	1	1	2	29	72
North Carolina	2	3	23	262	560
North Dakota	5	27	171	1,696	3,477
Ohio	0	3	17	183	537
Oklahoma	0	1	13	177	414
Oregon	0	0	7	30	55
Pennsylvania	0	1	5	33	101
Rhode Island	0	0	0	0	0
South Carolina	1	4	19	137	261
South Dakota	3	29	130	970	1,890
Tennessee	2	3	25	188	435
Texas	4	21	201	1,764	3,203
Utah	0	0	0	1	5
Vermont	0	0	0	0	3
Virginia	1	2	9	92	189
Washington	3	5	19	90	183
West Virginia	1	1	1	7	10
Wisconsin	1	6	27	233	543
Wyoming	0	0	0	5	18
<b>U.S. Total</b>	<b>26</b>	<b>165</b>	<b>1,131</b>	<b>10,152</b>	<b>22,575</b>

Source: Environmental Working Group. Compiled from RMA data for crop year 2011.

# WHERE SUBSIDIES GO

**Table 1. Risk Subsidies for the COMBO Product.**

Coverage Level	Insurable Unit	
	Basic Optional	Enterprise
	Percent of Premium	
50%	67%	80%
55%	64%	80%
60%	64%	80%
65%	59%	80%
70%	59%	80%
75%	55%	77%
80%	48%	68%
85%	38%	53%

Source: Risk Management Agency.

# HITTING A SUBSIDY LIMIT

## **Acres to reach the \$40,000 limit are:**

<b>2007</b>	<b>2,439 acres = \$40,000 limit /</b>	<b>(\$20 per acre risk subsidy x .82 adjustment factor)</b>
<b>2008</b>	<b>1,876 acres = \$40,000 limit /</b>	<b>(\$26 per acre risk subsidy x .82 adjustment factor)</b>
<b>2009</b>	<b>2,217 acres = \$40,000 limit /</b>	<b>(\$22 per acre risk subsidy x .82 adjustment factor)</b>
<b>2010</b>	<b>2,710 acres = \$40,000 limit /</b>	<b>(\$18 per acre risk subsidy x .82 adjustment factor)</b>
<b>2011</b>	<b>1,682 acres = \$40,000 limit /</b>	<b>(\$29 per acre risk subsidy x .82 adjustment factor)</b>

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# THE SENATE'S RISK PROGRAM

## Calculations for the ARC Program and Notes on the Calculations

(differences in calculation are highlighted in red)

County ARC	Individual ARC	Calculation Notes
<p><b>Payment made if</b></p> <p>actual <b>county</b> revenue is less than 89% of benchmark <b>county</b> revenue</p>	<p><b>Payment made if</b></p> <p>actual <b>farm revenue in county</b> is less than 89% of benchmark <b>farm revenue in county</b></p>	<ul style="list-style-type: none"> <li>▶ crops covered: wheat, corn, oats, sorghum, barley, long &amp; medium grain rice, pulse crops, soybeans, other oilseeds, peanuts</li> <li>▶ upland cotton is not a covered crop</li> <li>▶ payment made on individual crop basis</li> </ul>
<p><b>Benchmark Revenue</b></p> <p>Olympic average <b>county</b> yield for 5 prior crop years (low &amp; high yield removed)</p> <p>times</p> <p>Olympic average U.S. price for 5 prior crop years (low &amp; high price removed)</p>	<p><b>Benchmark Revenue</b></p> <p>Olympic average <b>farm yield in county</b> for 5 prior crop years (low &amp; high yield removed)</p> <p>times</p> <p>Olympic average U.S. price for 5 prior crop years (low &amp; high price removed)</p>	<ul style="list-style-type: none"> <li>▶ individual farm yield is calculated by county</li> <li>▶ benchmark values calculated for irrigated and non-irrigated acres, if practicable</li> <li>▶ U.S. average price differentiated by matting and other barley, sunflower seed type, &amp; wheat class</li> <li>▶ benchmark price not less than \$530/ton for peanuts &amp; \$13.00/hundredweight for rice</li> </ul>
<p><b>Actual Revenue</b></p> <p>(yield for <b>county</b>)</p> <p>times</p> <p>(average U.S. price for first 5 months of the crop's marketing year)</p>	<p><b>Actual Revenue</b></p> <p>(yield for <b>farm's acres in a county</b>)</p> <p>times</p> <p>(average U.S. price for first 5 months of the crop's marketing year)</p>	<ul style="list-style-type: none"> <li>▶ yield based on planted acres</li> <li>▶ individual farm yield is calculated by county</li> <li>▶ price is referred to as the midseason price</li> </ul>
<p><b>Per Acre Payment</b></p> <p>Smaller of [(89% of <b>county</b> benchmark revenue minus actual <b>county</b> revenue) or (10% of <b>county</b> benchmark revenue)]</p>	<p><b>Per Acre Payment</b></p> <p>Smaller of [(89% of <b>farm</b> benchmark revenue minus actual <b>farm</b> revenue) or (10% of <b>farm</b> benchmark revenue)]</p>	<ul style="list-style-type: none"> <li>▶ maximum loss covered is 10% of benchmark value</li> <li>▶ covers losses that occur between 79% and 89% of the benchmark revenue</li> </ul>
<p><b>Total Payment</b></p> <p>80% of eligible planted acres</p> <p>times <b>county</b> per acre payment</p> <p>plus</p> <p>45% of eligible prevent planted acres</p> <p>times <b>county</b> per acre payment</p>	<p><b>Total Payment</b></p> <p>65% of eligible planted acres</p> <p>times <b>farm</b> per acre payment</p> <p>plus</p> <p>45% of eligible prevent planted acres</p> <p>times <b>farm</b> per acre payment</p>	<ul style="list-style-type: none"> <li>▶ payment can vary by county for both county and individual ACR</li> <li>▶ payment limit per payment entity per year is \$50,000 for peanuts and \$50,000 for all other covered crops</li> <li>▶ Adjusted Gross Income Limit: \$750,000</li> <li>▶ conservation compliance &amp; wetland protection apply</li> </ul>

# A PREVIEW OF HOUSE BILL?

**Table 1. Super Committee Target Prices and Long-Run**

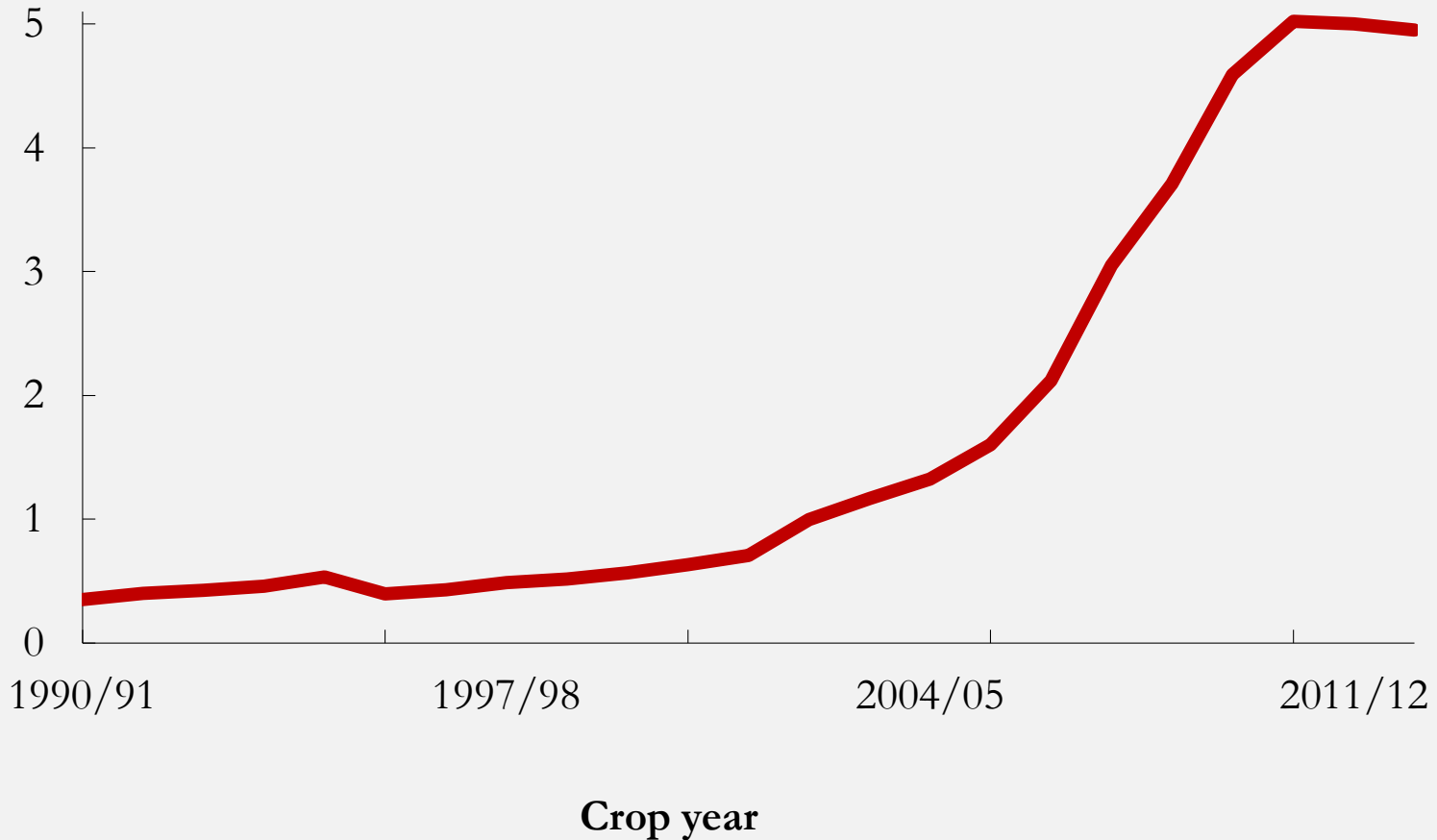
		Super Committee Target Price <sup>1</sup>	CBO Projected Price <sup>2</sup>	Target as a Percent of Projected Price
Corn	\$ per bu.	3.64	4.72	77%
Soybeans	\$ per bu.	8.31	10.86	77%
Wheat	\$ per bu.	5.50	5.94	93%
Rice	\$ per cwt	13.98	13.13	106%
Peanuts	\$ per ton	534.00	505.24	106%

<sup>1</sup> Target prices come from Farm Bill as part of Super Committee compromise.

<sup>2</sup> Average projected prices from 2013 to 2022 contained in the Congressional Budget Office, March 2012 baseline.

# U.S. ETHANOL: CORN USE TO DECLINE SLIGHTLY

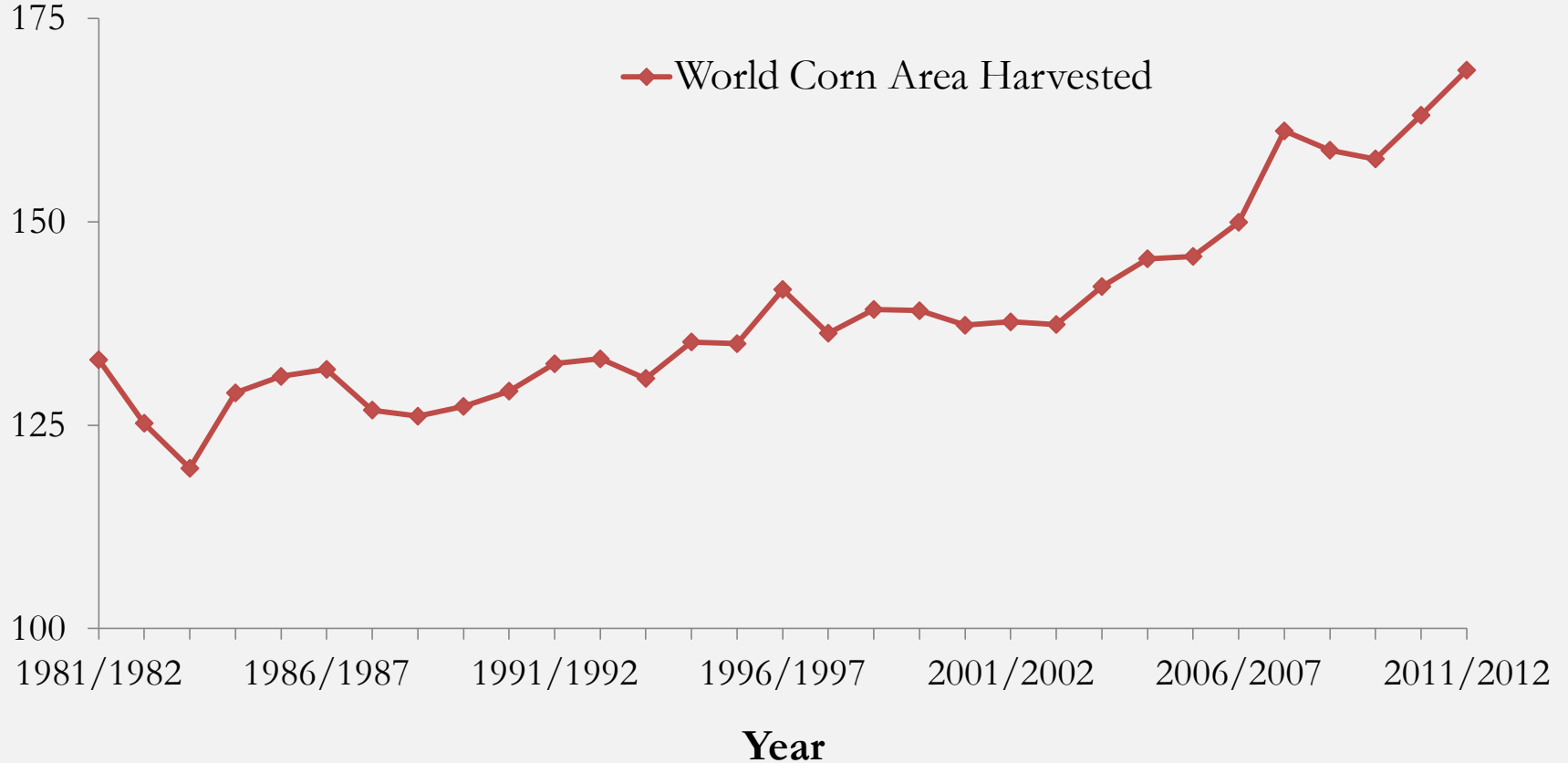
Billion bushels



Source: *USDA*

# WORLD CORN AREA EXPANDING

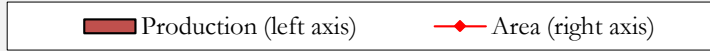
Million hectares



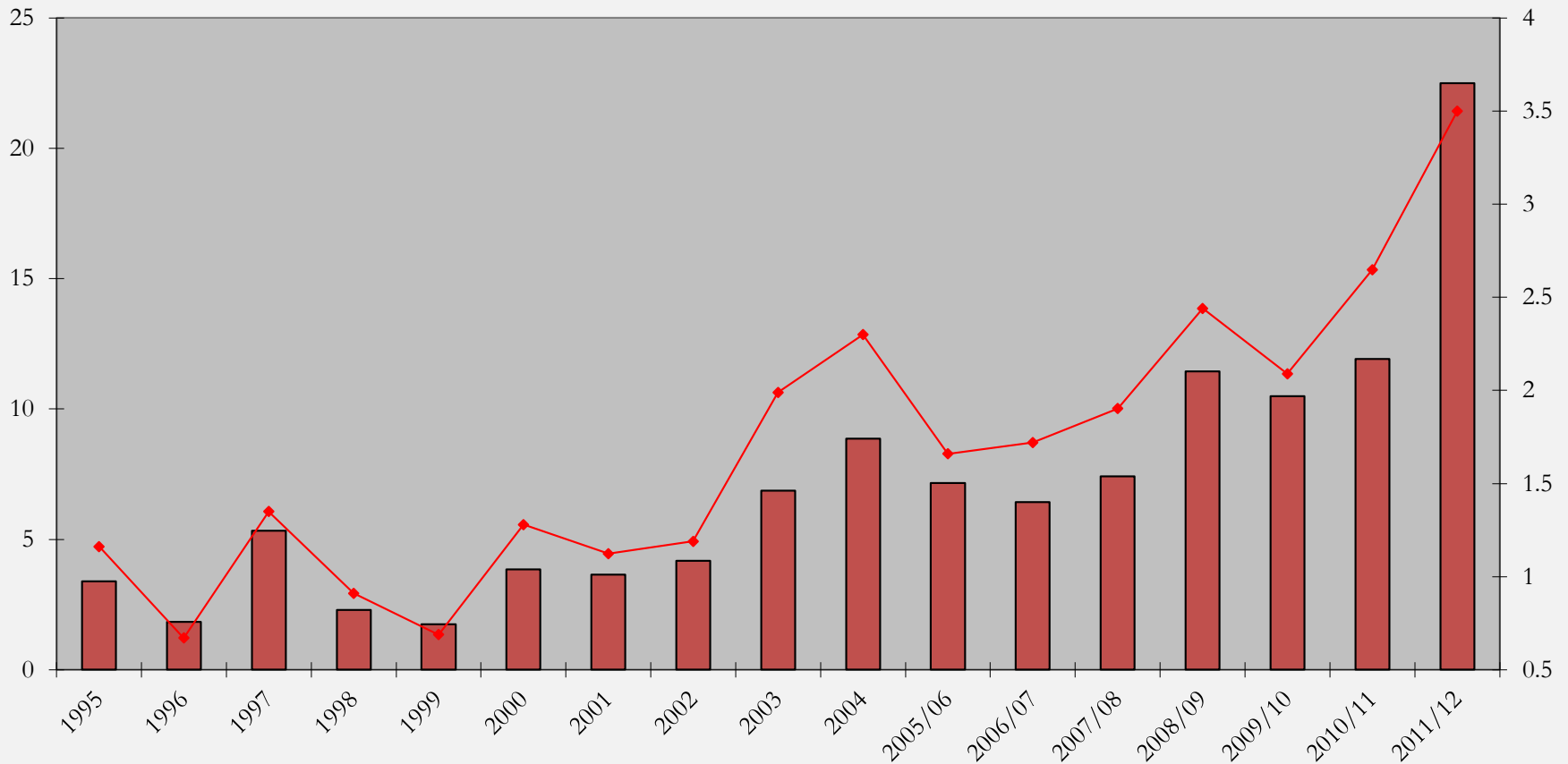
Source: USDA

# UKRAINE: CORN PRODUCTION SKYROCKETS

Million tons



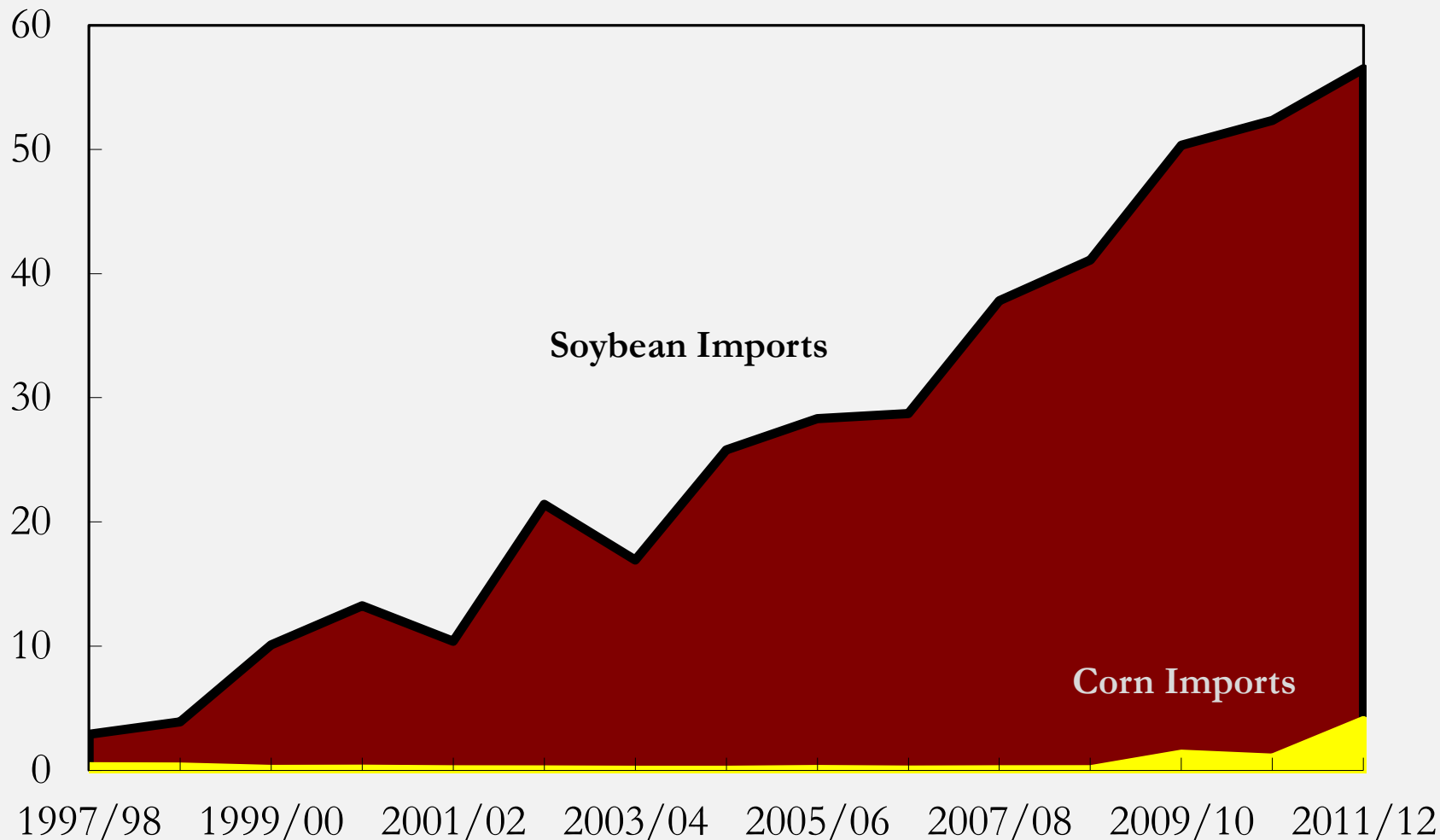
Million hectares



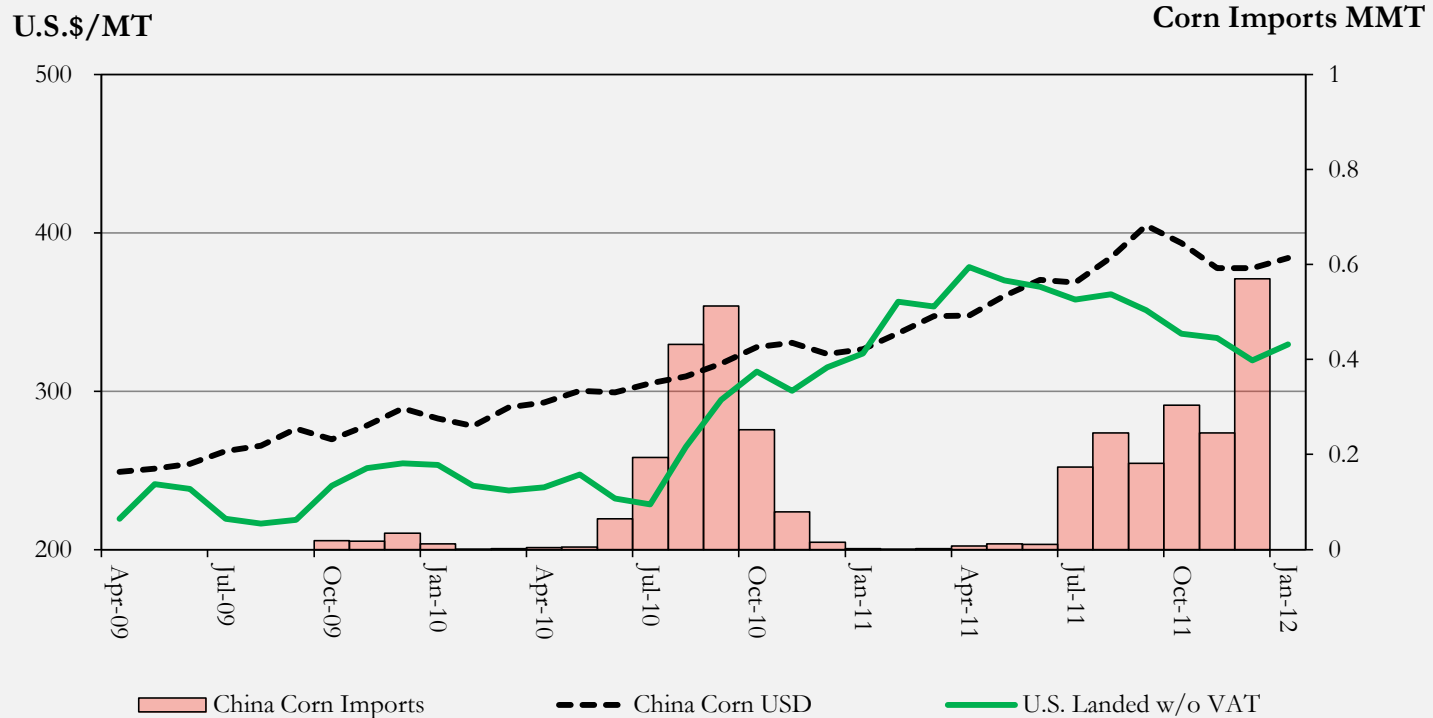
Source: USDA

# CHINA'S SOYBEAN IMPORT GROWTH LEADS WORLD

Million tonnes



# CHINA'S HIGH CORN PRICES SUPPORT IMPORTS



Source: CNGOIC, USDA Agricultural Marketing Service. Landed w/ VAT price is net of 13 percent VAT plus 1 percent tariff. Landed w/o VAT price is net of 1 percent tariff.