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Oilseed Producer Proposal for the 2007 Farm Bill

Introduction

Oilseed producers support the basic structure of the 2002 Farm Bill. They are familiar with the price and income support provided by the marketing loan and counter-cyclical programs, and with the production and yield protection provided by federal crop insurance and disaster assistance. However, they are not satisfied with the level of support provided to oilseeds under the 2002 Act, and urge Congress to adjust these levels, as proposed below.

Background

Oilseed producers are disadvantaged under the 2002 Farm Bill. In exchange for significant reductions in oilseed marketing loan rates, the 2002 Act included oilseeds in the counter-cyclical program and established direct payments on oilseed base acres. However, the levels of these supports are well below those provided to other program crops, based on either relative value or prices (see attached Table 1). As a result, oilseed producers have less income support under the 2002 Farm Bill than they did under the 1996 Act ("Freedom to Farm"). There have been no CCPs to oilseed producers under the 2002 Farm Bill.

In addition to the disparity in income support, marketing loan rates for various commodities have become distorted when compared to recent average prices (see Table 1). These distortions can cause major shifts in planting decisions between crops, particularly when prices are expected to be near or even below loan levels. Canola and sunflower have lost significant acreage under the 2002 Farm Bill due to loan rates that are relatively low compared to soybeans, corn, and pulse crops.

The Oilseed Commodity Program Proposal

To address these inequities, oilseed producers support adjusting marketing loan rates and target prices upward to common percentages of recent average prices. The five-year period of 2000-2004 is selected because it includes several relatively "low price" years as well as several "high price" years. An Olympic average of season average pries in these five years is used to further reduce distortions.

Marketing Loan Program

For the marketing loan program, the proposal sets loan rates at not less than 95% of 2000-2004

Olympic average prices. As indicated in Table 2, the current soybean loan rate of $5.00/bu. would increase under the proposal by only $0.01, to $5.01/bu. Loan rates for other crops, including canola and sunflower, would increase more significantly. Cotton and rice loan rates would not be affected by the proposal, since they exceed 95% of recent average prices.

Using FAPRI's mid-December revised baseline, AgRisk Management estimates the net increase in farm program costs from these loan rate adjustments at $158 million per year. As indicated in Table 3, most of this cost reflects increases in marketing loan gains by wheat, barley, corn, peanut, and minor oilseed (sunflower) producers.

Counter-Cyclical Program

For the counter-cyclical program, the proposal sets target prices at not less than 130% of 2000-2004 Olympic average prices. Table 2 indicates that the current soybean target price of $5.80/bu. would increase under the proposal by $1.05, to $6.85/bu. Target prices for other crops, including canola and sunflower, would also increase. Cotton and rice target prices would not be affected, since they exceed 130% of recent average prices.

Using FAPRI's revised baseline, AgRisk Management estimates the cost of these target price adjustments at $736 million per year. As indicated in Table 4, most of this cost reflects increases in CCPs to soybean, corn, wheat, barley, peanut, minor oilseed (sunflower), and oat producers. Combining these adjustments with the proposed changes in marketing loan rates, the total cost increase averages $894 million per year (see Table 5).

Direct Payments

Direct payments provide no direct or even deferred price or income support to producers of the program crops they are based on. As fixed payments tied to historical base acres, they contribute to higher land values and costs, and are easily factored into higher rents. This increases the production cost and reduces the competitiveness of U.S. agricultural commodities, and prices farmland out of the reach of young producers.

Moreover, with the finding of the WTO cotton panel that direct payments are not fully decoupled, it is likely that a future panel would require them to be counted under the production-distorting Amber Box. And eliminating the planting restriction on fruit and vegetable crops in order to qualify direct payments as a Green Box program could require compensation to specialty crop producers of one-half or more of their $5.2 billion per year cost.

In the event budget restrictions limit resources available to cover the cost of program improvements in the 2007 Farm Bill, oilseed producers are willing to consider proposals that would redirect direct payment funds. In this event, the marketing loan and counter-cyclical program adjustments advanced in this proposal should be fully funded. Other initiatives that oilseed producers support include authorization of permanent disaster assistance, increased funding of the Conservation Security Program, and the establishment of more robust programs to encourage production of energy crops and renewable fuels.

Table 1. Crop Support Levels Under the 2002 Farm Bill

2000-04 Direct Target
Olympic 04-07 Loan Rate Payment 04-07 Price
Average Loan as a % of Direct as a % of Target as a % of
Commodity Price Rate Ave Price Payment Ave Price Price Ave Price
Wheat (bu.) $3.19 $2.75 86% $0.52 16% $3.92 123%
Corn (bu.) $2.12 $1.95 92% $0.28 13% $2.63 124%
Soybeans (bu.) $5.27 $5.00 95% $0.44 8% $5.80 110%
Cotton (lb.) $0.4680 $0.5200 111% $0.0667 14% $0.7240 155%
Rice (cwt.) $5.81 $6.50 112% $2.35 40% $10.50 181%
Barley (bu.) $2.47 $1.85 75% $0.24 10% $2.24 91%
Grain Sorghum (bu.) $2.02 $1.95 97% $0.35 17% $2.57 127%
Oats (bu.) $1.52 $1.33 88% $0.024 2% $1.44 95%
Minor Oilseeds (SF price/cwt.) $11.27 $9.30 82% $0.80 7% $10.10 90%
Dry Peas (cwt.) $6.19 $6.22 100% NA NA
Lentils (cwt.) $12.90 $11.72 91% NA NA
Feed Peas (cwt.) $5.19 $6.22 120% NA NA

Table 2. Adjusting Loan Rates to 95% & Target Prices to 130% of 2000-04 Olympic Average of Prices
2000-04 Proposed % of Proposed % of
Olympic Direct 04-07 2008 Olympic 04-07 2008 Olympic
Average Payment Loan Loan Average Target Target Average
Commodity Price Rate Rate Rate Price Price Price Price
Wheat (bu.) $3.19 $0.52 $2.75 $3.03 95% $3.92 $4.15 130%
Corn (bu.) $2.12 $0.28 $1.95 $2.01 95% $2.63 $2.75 130%
Soybeans (bu.) $5.27 $0.44 $5.00 $5.01 95% $5.80 $6.85 130%
Cotton (lb.) $0.4680 $0.0667 $0.5200 $0.5200 111% $0.7240 $0.7240 155%
Rice (cwt.) $5.81 $2.35 $6.50 $6.50 112% $10.50 $10.50 181%
Barley (bu.) $2.47 $0.24 $1.85 $2.35 95% $2.24 $3.21 130%
Grain Sorghum (bu.) $2.05 $0.35 $1.95 $1.95 95% $2.57 $2.66 130%
Oats (bu.) $1.52 $0.024 $1.33 $1.44 95% $1.44 $1.97 130%
Minor Oilseeds (sunflower price/cwt.) $11.27 $0.80 $9.30 $10.71 95% $10.10 $14.66 130%
Peanuts (lb.) $0.205 $0.0180 $0.18 $0.195 95% $0.2475 $0.267 130%

Table 3. Change in Cost to Adjust Marketing Loans
2008 2009 2010 2011 2012 2013

($ million)						
All Crops	174	156	156	153	154	153
Soybean	5	5	5	6	6	6
Corn	34	29	29	28	31	32
Wheat	66	55	50	44	40	37
Cotton	0	0	0	0	0	0
Rice	0	0	0	0	0	0
Barley	36	35	36	36	37	36
Oats	2	2	1	1	1	1
Peanuts	24	23	26	28	27	27
Sorghum	0	0	0	0	0	0
Sunflower	8	8	9	10	11	12

Table 4. Change in Cost of Counter-Cyclical Program to Adjust Target Prices

	2008	2009	2010	2011	2012	2013
($ million)						
All Crops	713	685	703	744	769	803
Soybean	395	400	421	468	486	520
Corn	108	92	90	88	93	95
Wheat	82	71	66	60	56	53
Cotton	0	0	0	0	0	0
Rice	0	0	0	0	0	0
Barley	45	44	46	47	50	50
Oats	20	18	17	17	17	17
Peanuts	40	40	40	41	41	41
Sorghum	6	5	5	5	5	4
Sunflower	17	16	17	19	21	23

Table 5. Overall Annual Average Change in Farm Program Costs

Baseline

	$ Million	Percent
Marketing Loan Program	158	11%
Countercyclical Program	736	51%
Total	894	32%

Biodiesel Incentive Program

NCGA Position: The NCGA supports authorizing a Biodiesel Incentive Program under which the Commodity Credit Corporation (CCC) would make commodity reimbursements to

domestic biodiesel producers to offset foreign government incentives provided to biodiesel exported to the U.S.

? Unlike ethanol, biodiesel does not have an import tariff to offset the value of its tax incentive. Biodiesel importers who pay the U.S. duty of only 4.5% are eligible for the $1.00 per gallon agri-biodiesel tax credit. Since the tax incentive was enacted in 2003, the U.S. has imported biodiesel from the EU, Malaysia, and Ecuador.

? Biodiesel production and exports are subsidized in the EU and other countries. Argentina taxes biodiesel exports at 5%, but also taxes exports of soybean oil at 24%. This 19% Differential Export Tax provides an incentive worth $0.43 per gallon for Argentine soybean processors to convert soybean oil into biodiesel prior to export.

? As under the expiring Bioenergy Program, the Biodiesel Incentive Program would authorize CCC to use eligible commodities to reimburse U.S. biodiesel producers on all domestic biodiesel production. The reimbursement would equal the $0.43 per gallon benefit to biodiesel exported under Argentina's DET export subsidy program.

? The Biodiesel Incentive Program would also help the new U.S. biodiesel industry survive periods when the price relationship between soybean or canola oil diesel and petroleum diesel is negative for biodiesel production. This is participarly important as investors are responding to the new biodiesel tax incentive by building biodiesel plants in rural America.

? Based on expected production of 300 million gallons in 2007, the cost of the Biodiesel Incentive Program this year would be $129 million. This is less than the $150 million authorized to fund the Bioenergy Program.