The 2002 Farm Act

The 2002 Farm Act extended many of the types of programs of the 1996 Farm Act. Marketing assistance loans were continued, direct payments replaced PFC payments, and counter-cyclical payments institutionalized market loss assistance payments. The 2002 Act also retained nearly full planting flexibility,[2] thus enabling farmers to continue to respond to market signals and expected marketing loan benefits in their production choices. Provisions of the Act added soybeans and other oilseeds to the list of crops eligible for direct and counter-cyclical payments. The legislation also allowed farmers to designate base acres used for direct and counter-cyclical payments to reflect 1998-2001 plantings.

The Base-Designation Decision

The 2002 Farm Act required eligible farmland owners to enroll or re-enroll for the new direct and counter-cyclical payment program with USDA's Farm Service Agency (FSA). Enrollment obligated eligible farmland owners to designate base acres that, along with program yields, determine direct and counter-cyclical payments.[3] Owners who updated base acres also had the option to update payment yields for counter-cyclical payments but not for direct payments. Payments for direct payments and counter-cyclical payments are the product of their respective national payment rates, the farm's payment acres (85 percent of base acres), and the farm's payment yields. Young (2002) provides a description of the program's provisions.

Five options were available for designating base acres under the 2002 Act including options that allowed for inclusion of oilseed acres.[4] Farmland owners had to select one option for designating base acres on their farm. To illustrate these options, we look at an example of a farm with 70 acres of corn PFC acres and 10 acres of wheat PFC acres enrolled under the 1996 program (table 1). This farm was planted with an average of 60 acres of corn, 10 acres of wheat, and 30 acres of soybeans in 1998-2001. The sum of acres planted to these program crops is 100 acres: this amount is the maximum number of acres the farm can designate as base. This farm also planted 50 acres to alfalfa during 1998-2001. Since alfalfa was not a program crop under the 1996 Farm Act or a covered commodity under the 2002 Farm Act, these acres do not count toward the farm's maximum program base acreage. Options are as follows:

- *Status quo, keeping PFC acres unchanged:*

  Option 1**:** Base acres equal the contract acreage (70 acres of corn base and 10 acres of wheat base) that would have been used for 2002 PFC payments.

- *Augment PFC acres by adding oilseeds (three variants):*

  Option 2**:** Base acres equal the contract acreage that would have been used for 2002 PFC payments (as in option 1), *plus* the average oilseed acreage planted in 1998-2001, up to the base acreage maximum (total area planted or prevented from planting to eligible crops in 1998-2001). Under this option, the farmland owner could add 20 acres of soybean base to the 70 acres of corn base and 10 acres of wheat base. This was

[2]Planting for harvest of fruits, vegetables (other than lentils, mung beans, and dry peas), and wild rice (after 2000) was prohibited on PFC acres, except in the following situations: (1) Harvesting double-cropped fruits, vegetables, and wild rice on base acres was permitted, without loss of payments, in any region that has a history of double-cropping covered commodities with the otherwise prohibited crops. An individual farm need not have a double-cropping history, only the region; (2) Harvesting of any fruits, vegetables, or wild rice on PFC acres was permitted, with an acre-for-acre loss of PFC payments for each acre planted to the otherwise prohibited crop, if the U.S. Secretary of Agriculture determined that there was a history of planting those crops on the farm; and (3) Harvesting a specific fruit, vegetable, or wild rice on PFC acres was permitted, with an acre-for-acre loss of PFC payments for each base acre planted to the specific crop, if the Secretary determined that the producer had an established planting history of the specific crop.

[3]USDA Farm Service Agency correspondence regarding base designation was directed to the landowner, who frequently is the farmer or operator. In many instances where the owner is not the operator, the owner made the decision in consultation with the operator or asked the operator to actually designate base.

[4]Base for peanuts was designated separately from other commodities

Table 1
Example of base-designation alternatives

Item	Corn	Wheat	Soybeans	Total crops program	Alfalfa
			Acres		
Plantings and 1996 farm act program parameters:					
1998-2001 plantings	60	10	30	100	50
Production flexibility contract (PFC) acres	70	10	--	80	--
Base designation alternatives:					
PFC augmentation/adjustment options					
Option 1, PFC acres	70	10	--	80	--
Option 2, PFC acres plus oilseeds up to total permitted	70	10	20	100	--
Option 3, oilseed acres plus PFC acres up to total permitted	70	0	30	100	--
Option 5, mix of PFC acres and oilseed acres up to total permitted	70	0-10	20-30	100	--
Update option					
Option 4, average 1998-2001 plantings	60	10	30	100	--

-- = Not eligible.

Source: USDA's Economic Research Service.

the default option: a farm owner who did not make an election was considered by FSA to have elected option 2.

Option 3**:** Base acres equal PFC acres plus oilseeds (option 2), but with a PFC offset. This option allowed a farmland owner to add the full amount of oilseed plantings (30 acres) by reducing PFC base, if necessary. In the example, the farm is assumed to reduce wheat base, rather than corn base, as wheat generally has lower payments per acre.

Option 5**:** Base acres equal PFC acreage, with oilseed base added by reducing PFC acres. This option allowed farmland owners to add some, but not all oilseed plantings. Under this option the farm owner could add between 20 and 30 acres of soybean base. Option 5 is a blend of options 2 and 3.

- *Update base to 1998-2001 plantings:*

Option 4 (updating)**:** Base acres equal the average acreage planted and prevented from planting in 1998-2001. Base designation under option 4 most closely reflects recent planting history.

Payment yields for direct payments are unchanged from those used in the 1996 Act except for yields for soybeans and other oilseeds, which were not part of the 1996 Act's production flexibility contract payments.[5] Yields for oilseeds payments are determined by the farm's 1998-2001 average yields multiplied by the adjustment factor.[6] This value is the ratio of the national average yield for 1981-85 to the national average yield for 1998-2001. This adjustment makes oilseed program yields comparable to the program yields for corn, wheat, and other nonoilseed program crops.

[5]Soybeans and other oilseeds were eligible for marketing loans under the 1996 Farm Act.

[6]The adjustment factors are 0.65 for flaxseed, 0.80 for sunflower seed, and 0.78 for soybeans and the rest of the other oilseeds (canola, safflower, mustard seed, rapeseed, sesame, and crambe).

Farm owners who updated base acres under option 4 also had to choose how to designate payment yields for CCPs:

- *Yield designation A:* Set CCP yields equal to PFC yields.
- *Yield designation B:* Set CCP yields equal to the weighted average of the PFC yield and the 1998-2001 average yields. The weights were 30 percent of PFC and 70 percent of 1998-2001.
- *Yield designation C:* Set CCP yields equal to 1998-2001 yields times an adjustment factor of 93.5 percent.

The method selected applied to all program commodities; that is, one could not use one method for corn and another method for wheat. Like the base acreage designation options, the yield designations are combinations of a farm's PFC yields and its 1998-2001 yields (per planted acres).

Signup Results

Overall, FSA reported that only 39 percent of eligible base acres were updated (table 2). However, base updating to reflect 1998-2001 plantings varied by region and commodities produced. Examination of the updated base acres at the county level reveals clear spatial patterns (fig. 8). Tidewater Virginia and North Carolina, for example, had larger cotton area in the mid-to-late 1990s following the eradication of the boll weevil in this region as well as increased planting flexibility. Cotton base is very valuable; thus, updating allowed farmland owners in the region to increase cotton payment acres for direct and counter-cyclical payments. Other spatial concentrations where base updating was high include eastern South Dakota and western Minnesota.

Table 2
Base designation results under 2002 Farm Act[1]

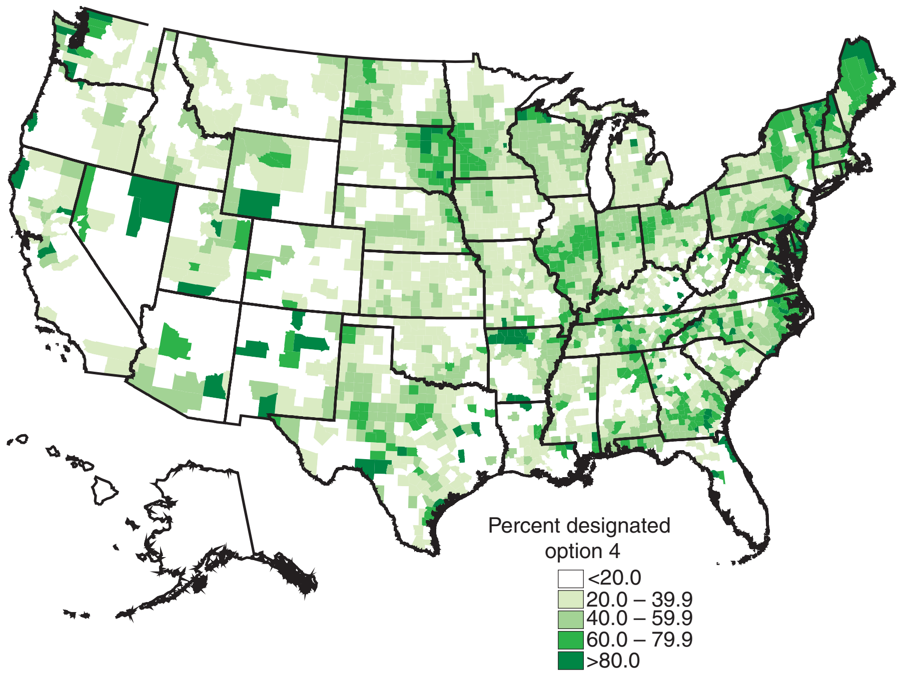
Base designation options	Base acres	Farms as defined by FSA	Producers
		Percent	
Option 1 (keep PFC acreage)	23.1	24.1	35.1
Options 2, 3, and 5 (PFC acreage augmented/adjusted for oilseeds)	37.8	35.2	45.2
Option 4 (1998-2001 plantings, all crops)	39.1	40.7	19.7
	Enrolled acres	Enrolled farms	Enrolled producers
		Million acres	
Total	267.9	1.9	1.3

[1]Excludes peanuts.

Source: Compiled by USDA's Economic Research Service from the Farm Service Agency.

Figure 8

Percent of eligible acreage that updated base acreage to 1998-2001 plantings, 2002 Farm Act



Percent of base acres designated option 4

Share of acres designated option 4	Acres designated option 4	All base acres enrolled	Number of producers designating option 4	Number of producers designating base	Number of counties
Percent	*—— 1,000 acres ——*				
Under 20.0	6,130	45,747	43,887	210,355	872
20.0 to 39.9	30,757	101,858	201,362	522,035	999
40.0 to 59.9	39,802	80,132	227,408	414,283	731
60.0 to 79.9	25,357	36,997	120,820	175,883	351
Over 80.0	2,731	3,176	9,657	12,205	103

Source: Compiled by USDA's Economic Research Service from the Farm Service Agency.