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GUIDE TO THE 2002 FARM BILL

An Overview of 2002 Farm Bill Legislation and How It Impacts *You*

This guide made possible by:

Bayer CropScience

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The Farm Security and Rural Investment Act of 2002

Since the first farm bill in 1938, the United States Congress has provided various forms of farm income protection against adverse weather conditions, crop diseases and depressed commodity markets. More recently, the Agricultural Market Transition Act (AMTA) established programs to assist producers of certain crops for the years 1996 through 2002, and provisions of AMTA programs continue in part in the 2002 Farm Bill.

With the passage of the Farm Security and Rural Investment Act of 2002, United States farmers and ranchers have another long-term safety net that is tied to market conditions for various covered commodities. The 2002 legislation is budgeted at $171 billion over a 10-year period, even though the scope of the bill covers a six-year period from 2002 through 2007.

The programs covered in the 2002 Farm Bill address the economic safety net needs of producers while maintaining the planting flexibility of the previous farm bill. Other major changes include increased emphasis on income protection programs for a wider range of crops, enhanced conservation programs and increased rural economic development.

This brochure provides a brief overview of the farm safety net and assistance programs for corn, soybeans, wheat, barley, oats, sorghum, cotton and rice available through 2007, and how these programs impact rural America.

A farm bill calculator also has been developed in cooperation with the Center for Agricultural & Rural Development to assist producers in determining how various programs impact their farm income.

Farm Safety Net Programs for Major Commodity Crops

Direct Payments

Producers on farms with existing production flexibility contracts (PFCs), and other producers with a history of contract crop or oilseed production from 1998 through 2001, are eligible to sign up for direct payments. Under the 2002 bill, soybeans and minor oilseed crops are considered "covered commodities" and are made eligible for direct payments for the first time. There are provisions made for expiring Conservation Reserve Program (CRP) acres to be added to the agreements as well. Direct payments have an annual per person payment limit of $40,000.

Loan Rates, Direct Payments and Target Prices for Covered Commodities

	Loan Rate		Direct Payment	Target Price	
	2002-03	2004-07	2002-07	2002-03	2004-07
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)	$.0960	$.0930	$0.0080	$0.0980	$0.1010
Cotton (lb)	$.5200	$.5200	$0.0667	$0.7240	$0.7240
Rice (cwt)	$6.50	$6.50	$2.35	$10.50	$10.50

Direct payments are made on 85 percent of base acres as determined by two options (see Base Acres section) multiplied by the payment yield (see Payment Yield section) and the payment rate for the covered commodity. To calculate direct payments, ONLY the farm's current AMTA payment yield or the payment yield established for oilseeds can be used. With the exception of the establishment of payment yields for oilseeds, payment yields for direct payments cannot be updated.

Direct Payment Rate 2002-2007	
Corn (bu)	$0.28
Wheat (bu)	$0.52
Soybeans (bu)	$0.44
Sorghum (bu)	$0.35
Cotton (lb)	$0.0667
Rice (cwt)	$2.35
Minor Oilseeds (lb)	$0.0080

For the crop years 2003 through 2007, the producer can choose to receive 50 percent of the payment on or after December 1 of the year before the crop is harvested, with the remainder paid not before October 1 of the year in which the crop is harvested. Fiscal year 2002 PFC payments under current law are to be discontinued. Any amount already paid is to be deducted from the amount of direct payments to be made under the new Farm Security and Rural Investment Act of 2002.

Countercyclical Payments

The 2002 Farm Bill establishes countercyclical, target price-based payments, which are decoupled from production. Countercyclical payments make up the difference between a crop's average market price, plus the fixed decoupled payment, and the target price. Target prices are shown in the following table. The payment amount for each commodity is 85 percent of base acres multiplied by the payment yield multiplied by the payment rate. The payment rate is the difference between a) the national loan rate or the average market price, if higher than the loan rate, plus the fixed decoupled payment and b) the target price.

Note: Target prices for most covered crops increase for years 2004 through 2007, whereas loan rates decrease for most crops for years 2004 through 2007.

Payment Rate = Target Price - (Direct Payment + higher of national loan rate or 12-month average price)

Countercyclical Payments = (.85 x Base Acres) x Payment Yield x Payment Rate

Example: A corn grower with a planted corn base of 782 acres; a countercyclical payment yield of 82 bushels; a target price of $2.60; a fixed payment rate of $0.28; and a loan rate of $1.98 (with an average corn price of $1.95) would qualify for a total countercyclical payment of $18,531.83.

The annual per person payment limit for countercyclical payments is $65,000. An eligible producer would not have to plant the base crop to qualify for any countercyclical payment for that crop. Payment yields for countercyclical payments may be updated, but only if the producer updates the acreage bases on that farm. For the 2002 through 2006 crops, producers can receive up to 35 percent of the projected payment in October of the year in which the crop is harvested; 35 percent beginning in February of the following year; and the balance at the end of the 12-month marketing year for the specific crop. Slightly different rules apply for the 2007 crop.

Target Prices		
	2002-2003	**2004-2007**
Corn (bu)	$2.60	$2.63
Wheat (bu)	$3.86	$3.92
Soybeans (bu)	$5.80	$5.80
Sorghum (bu)	$2.54	$2.57
Cotton (lb)	$0.7240	$0.7240
Rice (cwt)	$10.50	$10.50
Minor Oilseeds (lb)	$0.0980	$0.1010

Marketing Assistance Loans

Marketing assistance loans or loan deficiency payments (LDPs) are available for loan commodities on all farms where they are produced. Loan rates are established by statute and are no longer linked to past market prices.

In addition, the 2002 Farm Bill includes authority for LDPs on grazed wheat, oats, barley and triticale; LDPs on the 2001 crop for non-AMTA farms; and waives beneficial interest requirements for the 2001 crop.

Other Important Program Information

Base Acres Update

Producers will be given a one-time option to update base acres on a farm. Producers will have two choices to determine base acres for direct and countercyclical payments under the 2002 Farm Bill.

1) They may choose to maintain their current AMTA base acres and add oilseed acres in a limited way, or;

2) They may calculate base acres reflecting the four-year average of acreage planted or prevented from being planted to the commodity for harvest, grazing, haying, silage or other similar purpose during the 1998 through 2001 crop years.

Base acres cannot exceed total cropland on a farm, except for established double cropping practices minus CRP acres.

Payment Yields

Producers can update the payment yields only if they also update base acres. Any updated payment yields apply ONLY to countercyclical payments. Producers who fully update base acres may choose to keep current payment yields or to do a partial update of their payment yields. One choice for updating is to use 70 percent of the difference between current AMTA yields and a full yield update based on 1998-2001 yields on planted acres. A second choice allows producers to use 93.5 percent of 1998-2001 yields on planted acres. In years of low production, a "plug" of 75 percent of the county average yield may be assigned for that year. The yield choice is applicable to all covered commodities on the farm.

Current AMTA payment yields and established oilseed yields are used for all fixed payments and for countercyclical payments for producers who do not do the 1998-2001 acre update.

Payment Limits

For the 2002 Farm Bill, total annual payments are capped with limitations on the amount producers can receive for direct payments, marketing loan benefits and countercyclical payments. The bill also retains the current rules on spouses, three-entity and actively engaged requirements, and beginning with the 2003 crop, includes a $2.5 million adjusted gross income cap to be eligible to participate in farm programs.

However, commodity certificates may be used to redeem crops under loan.

2002 through 2007 Payment Limitations	
	Dollars / Entity
Direct Payments	$40,000
Countercyclical	$65,000
LDPs / MLGs	$75,000

Other Points of Interest

- Payments in lieu of LDPs. Wheat, barley, oats and triticale that are grazed and not harvested, but would be eligible for LDPs if harvested, would receive LDPs under similar rules to those that apply to harvested crops. Federal crop insurance indemnity payments are not allowed on acreage subject to grazed land payment agreements.

- For farms that normally harvest high-moisture corn or sorghum, recourse loans are available at rates set by the USDA. Farmers need not have signed agreements to receive these loans.

- Recourse loans are available for all upland and ELS seed cotton at rates set by the USDA. Farms need not have signed agreements to receive these loans.

- For peanuts, the bill provides a quota buyout of 11 cents per pound per year over five years; a countercyclical program with a target price of $495 per ton; a direct decoupled payment at $36 per ton and allows for payment of storage costs for peanuts under loan.

Conservation Program Benefits

The conservation provisions of the Farm Security and Rural Investment Act of 2002 provide an additional $17.1 billion for new and expanded voluntary conservation programs over the next 10 years, an increase of 80 percent over current levels. Overall, the program encourages farmers to adopt better conservation and environmental practices.

The highlights and major changes to the conservation program during the tenure of the new farm bill include:

Conservation Reserve Program

The legislation increases the Conservation Reserve Program (CRP) ceiling from 36.4 million acres to 39.2 million acres and expands the small wetlands pilot program to one million acres total with all states eligible. The bill allows certain economic uses of enrolled lands if consistent with soil, water and wildlife conservation, including managed grazing and haying (with reduced payments), construction of wind turbines and harvesting of biomass to produce energy.

Environmental Quality Incentives Program

By itself, the Environmental Quality Incentives Program (EQIP) is the single largest component of the conservation program. This cost-share program provides financial assistance for undertaking practices, such as nutrient management, construction of manure management facilities and other structural, vegetative and land management practices.

In addition, it authorizes contracts of one to 10 years; repeals requirements that structural practices be selected to maximize environmental benefits per dollar spent; and deletes the animal unit cap. The bill establishes an overall payment limitation of $450,000 per producer. Also, a new provision is added to make incentive payments at an amount and rate to encourage multiple land management practices, with an emphasis on payments for practices that address residue, nutrient, pest invasive species and air quality management.

Conservation Security Program

A new program within conservation for 2003 is the Conservation Security Program, which provides incentive payments to farmers for undertaking or expanding conservation practices on their farms.

Participation in this program is available in three levels or tiers. Payments are made based on level of participation, not to exceed $45,000 per individual or entity per year.

The new farm bill also extends existing conservation programs, such as the Wildlife Habitat Incentives Program, the Farmland Protection Program, and the Wetlands Reserve Program.

For additional up-to-date information on the 2002 Farm Bill and how it impacts you, please visit the NCGA Web site at *www.ncga.com* or contact the Washington, DC office of the NCGA at 202-628-7001.

For additional copies of the *Guide to the 2002 Farm Bill* and Farm Bill Calculator, please contact the National Corn Growers Association at 314-275-9915.

The National Corn Growers Association thanks Bayer CropScience and John Deere for helping make this information available.