

August 30, 2002, revised October 3, 2002

FEFO 02-16

OPTIONS FOR DETERMINING BASE ACRES UNDER THE 2002 FARM BILL

(Revised on October 3, 2002 to reflect new rules from the Farm Service Agency)

Between October 1, 2002 and April 1, 2003, farmers and landowners will choose one of five options for determining base acres under the 2002 Farm Bill. This choice influences direct and counter-cyclical (CC) payments that will be received for crops grown in 2002 through 2007. The decision also will impact whether the yields used to calculate CC payments can be partially updated (see Updating Acres and Yields Under the 2002 Farm Bill at

http://www.farmdoc.uiuc.edu/manage/newsletters/html/fefo02_11.html for further descriptions). The five options are:

1. Retain 2002 Production Flexibility Contract (PFC) acres,
2. Retain 2002 PFC acres and add minimum eligible oilseed acres,
3. Exchange 2002 PFC acres for maximum oilseed acres,
4. Update acres using the average of acres planted or prevented planting from 1998 through 2001, and
5. Exchange existing 2002 PFC acres with less than maximum or more than minimum oilseed acres.

These decisions determine whether base acres under the 1996 Farm Bill, also known as Production Flexibility Contract (PFC) acres, are used to determine base acres under the 2002 Farm Bill, or whether average plantings and preventing plantings from 1998 through 2001 are used to determine base acres. This paper illustrates the impacts of these acre options on an example farm.

Table 1. Planted Acres for the Example Farm.

Year	Corn Acres	Soybean Acres	Total Program Acres
1998	70	30	100
1999	30	70	100
2000	70	30	100
2001	30	70	100
Avg.	50	50	100

Example Farm Used to Illustrate Options

The example farm plants 100 acres of corn and soybeans each year from 1998 through 2001. This farm has one 70 acre field and one 30 acre field. Corn and soybeans are grown in rotation. In 1998, the 70 acre field had corn and the 30 acre field had soybeans. In 1999, the 70 acre field had soybeans and the 30 acre field had corn (see Table 1). This farm's Production Flexibility Contract (PFC) acres are 60 for corn. These PFC acres were used to calculate Agricultural Marketing and Transition Act (AMTA) payments under the 1996 Farm Bill.

Option 1. Retain 2002 Production Flexibility Contract Acres

A choice of option 1 results in the same base acres under the 2002 Farm Bill as under the 1996 Farm Bill. Under the 1996 Farm Bill, soybeans and other oilseed crops were not covered under the program. Soybeans are included under the 2002 Farm Bill. Since soybeans are not an “old” program crop (i.e., corn, wheat, oats, and sorghum), soybeans do not have PFC acres. Choosing option 1 will not add a base for soybeans. Under option 1, the example farm will have 60 base acres of corn and 0 base acres of soybeans. This option will be used very little in Illinois.

Option 2. Retain 2002 PFC Acres and Add Eligible Oilseed

Under option 2, “old” program crops including corn, wheat, oats, and sorghum will have the same base acres under the 2002 Farm Bill as under the 1996 Farm Bill. In this respect, option 2 is like option 1. The example farm will have 60 base acres of corn – equal to current PFC acres – if this option is selected.

Unlike option 1, choosing option 2 will add a soybean base. The soybean base will equal the minimum of 1) the average of the program crops from 1998 through 2001, minus old PFC bases or 2) the average of soybean plantings between 1998 through 2002. The process of determining the soybean base is illustrated for the example farm. This farm plants 100 acres of program crops each year (see Table 1) and has 60 PFC corn acres, giving a maximum of 40 soybean base acres. The average soybean plantings from 1998 through 2002 are 50 acres, above the maximum. Hence, this farm will have 40 soybean base acres under option 2.

Option 2 results in the minimum number of soybean base acres. Of the options that do not update acres (options 1, 2, 3 and 5), option 2 is likely to be used the most in Illinois.

Option 3. Exchange 2002 PFC Acres for Maximum Oilseed Acres

Option 3 allows corn, wheat, oats, and grain sorghum acres (i.e., program crops under the 1996 Farm Bill) to be exchanged so that the maximum number of soybean acres can be obtained. The maximum number of soybean acres equals the average of soybean acres planted or prevented planted between 1998 through 2001. If the 1998 through 2001 average is higher than the soybean base acres arrived at under option 2, soybean acres can be increased up to the average. Increasing soybean acres, however, requires an equal reduction in base acres of other “old” program crops.

The example farm has average soybean plantings of 50 acres between 1998 through 2001. Base acres under option 2 are 60 corn and 40 soybean acres. Under option 3, the soybean base can be increased by 10 acres to 50 acres. The soybean acre increase is offset by a 10 acre decrease in corn base. Under option 3, the example farm will have 50 corn base acres and 50 soybean base acres.

Most Illinois farmers and landowners will not find option 3 advantageous compared to option 2. Option 3 often requires corn base acres to be reduced compared to option 2. Corn base acres usually have higher government payments than do soybean acres.

Option 4. Update Acres Using the Average of Acres Planted or Prevented Planting from 1998 through 2001

This option determines base acres on average plantings and prevented plantings from 1998 through 2001. Previous PFC base acres are not used in the calculating base acres under the 2002 Farm Bill.

The case farm averaged 50 acres of corn and 50 acres of soybeans from 1998 through 2001. Under this option, the example farm will have 50 corn base acres and 50 soybean base acres.



This option is the only option that allows the use of partially updated yields when determining counter-cyclical payments.

Option 5. Exchange Existing 2002 PFC Acres with Less Than Maximum Oilseed Acres

Under this option, great flexibility exists in setting base acres between the minimums and maximums set in option 2 and option 3. “Old” program acres can be switched for soybean acres in a one for one exchange. Option 5 does not exist if minimum soybean acres (option 2) do not differ from maximum soybean acres (option 3).

The case farm has 60 corn and 40 soybean base acres under option 2. The farm has 50 corn acres and 50 soybean base acres under option 3. Option 5 allows the farmer to have 59 corn acres and 41 soybean acres, 58 corn acres and 42 soybean acres, 57 corn acres and 43 soybean acres, and so on to 51 corn acres and 49 soybean acres. In Illinois, this option most likely will be used when option 4 is not used and the old bases include low paying old program crops like oats or barley.

Summary of Yield Options and Impacts on Updating Yields

Base acres for the case farm under the five options are shown in Table 2. The choice of the five options determines whether or not yields can be updated. If acres are updated based on plantings and prevented plantings from 1998 through 2001 (option 4), yields used to determined CC payments can be updated using actual production from 1998 through 2001. Updating yields often results in higher CC payments than if yields are not updated. Yields can not be updated if acres are not updated (options 1, 2, 3, and 5).

Table 2. Base Acres For Different Options for the Case Farm.

Option	---- Base Acres ----	
	Corn	Soybeans
1. Retain PFC acres	60	0
2. Retain, add minimum soybean	60	40
3. Retain, add maximum soybean	50	50
4. Update acres (1998 through 2001)	50	50
5. Exchange PFC acres	(a)	(b)

(a) Anywhere between 51 and 59 acres.

(b) Equals 100 minus corn acre choice.

Software exists to estimate payments for the five acre updating options (see *farmdoc*, <http://www.farmdoc.uiuc.edu/manage/FarmBill/decisiontool.html> or Texas A&M for <http://www.afpc.tamu.edu/models/base/>). Evaluations suggest the following results:

1. Option 2 will always have greater government payments than option 1 whenever a soybean base can be added. Hence, most Illinois farmers will not find option 1 attractive.
2. Payments from a base acre usually rank as follows: a corn acre has a higher payment than a grain sorghum acre, a grain sorghum acre has higher payments than a wheat acre, a wheat acre

has a higher payment than a soybean acre, and a soybean acre has a higher payment than an oat acre. This relationship has a bearing on choices between the remaining options that do not update acres (options 2, 3, and 5). Most landowners who do not have oat acres will find that option 2 results in higher government payments than options 3 or 5. When a farm currently has an oat base, and does not want to update acres, either option 5 or 3 can be used to eliminate the oats base. Option 5 could be used when less than a maximum shift to soybeans eliminates oats acres. Before applying this rule, a farmer should make sure that the ranking listed above actually exists for the particular farm.

3. The choice will often come down to one between not updating acres (see (2) above for the likely “do not update” option) and updating acres (option 4). What happens to base corn acres often dictates which option results in the highest government payments. Updating acres often results in the highest government payments when updating acres does not result in a significant loss of corn acres. Large losses often cause one of the do not update options (2,3, and 5) to have higher payments than the updating option (option 4).

The above are general rules that will not hold in all situations. Use of a software program to evaluate alternatives is advisable.

Issued by: Gary Schnitkey, Department of Agricultural and Consumer Economics

