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Default yields available for ACRE program

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The Farm Service Agency (FSA) recently announced that a set of default values for crop yields is available for farmers who want to enroll in

the new Average Crop Revenue Election (ACRE) program. A lack of production information has been cited by many producers as a reason not to enroll in ACRE. This provision addresses that problem.

The default yield for each crop, county and year is equal to 95 percent of the yield per planted acre.

Handbook updates

For those of you subscribing to the handbook, the following updates are included.

2009 Corn and Soybean Loan Rates – A1-34 (2 pages)

Lean Hog Basis – B2-41 (1 page)

Live Cattle Basis – B2-42 (1 page)

Feeder Cattle Basis – B2-43 (1 page)

Table of Contents – C2-00 (1 page)

Computing a Pasture Rental Rate – C2-23 (2 pages)

Fixed Bushel Rent – C2-32 (2 pages)

Please add these files to your handbook and remove the out-of-date material.

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Based on county averages

The default yields made available by FSA are based on the county yield averages estimated each year by the National Agricultural Statistics Service (NASS). However, instead of reflecting yields per harvested acre, like the published NASS data, the ACRE default yields will be calculated as yields per planted acre. The total number of bushels harvested in each county is divided by the total number of acres that were planted or were intended to be planted, including prevented planting acres. The planted acres total does not include land that was harvested for silage or other non-grain uses, however.

Any producer who elects the ACRE program must provide production information for each year from 2004 through 2008, for each program crop covered. Farm level yields will be calculated by dividing total bushels produced by total planted acres, just as for the county yields. However, for any given year the FSA default yield will be used if the actual production is less than the default yields, or if the crop was not planted that year. If production information is not

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available for a certain year, the county default yield will be assigned to that year and all years before that (back to 2004), even if production information is available for the prior years. This could benefit producers who do not have production information for some years.

The default yields for each county in Iowa can be found on the Iowa State University Extension Ag Decision Maker Web site, at www.extension.iastate.edu/agdm/. Click on the Farm Bill Information button, then the ACRE calculator icon.

Implications

The most obvious impact of this ruling is that farmers with yields below the county average in some years can simply elect to use the default yields instead. The farm “trigger” revenue for 2009 will be based on the average of the middle three out of these five yields, multiplied by the average marketing year price for the 2007 and 2008 crops. This means that their “actual” farm revenue in future years will be more likely to fall below the trigger level than if they had used their actual farm yields. It should be remembered, though, that falling below the farm level trigger is only one of the conditions required to be receive an ACRE payment. The state level revenue must also be below

the state trigger, and the size of the payments is based on the state level revenue shortfalls.

Once the state level payment per acre is determined, it is adjusted by multiplying by the farm level historic yield as a percent of the state level historic yield. Thus, using the default yields when they are higher than the farm yields can increase farm level payments as well as make it easier to trip the trigger.

Production documentation

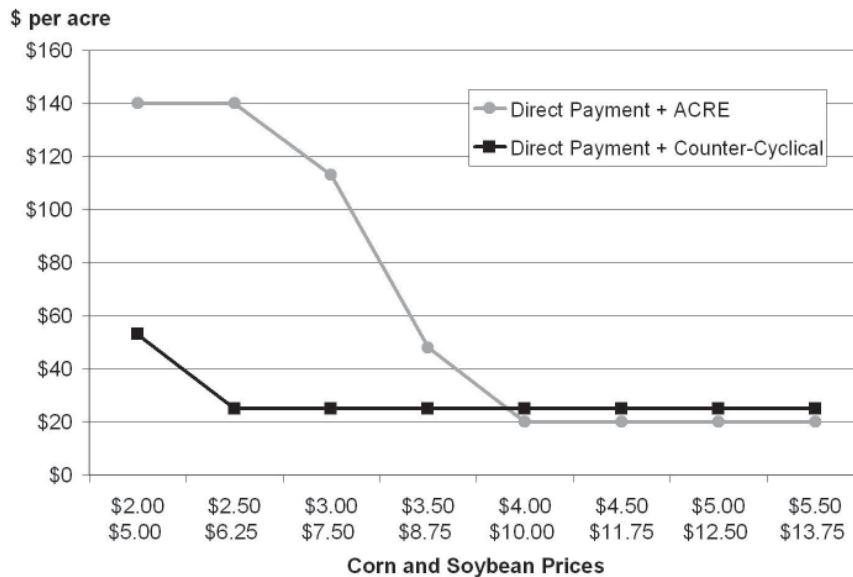
Producers who enroll in ACRE will be asked to certify total bushels harvested for each year from 2004 through 2008 on the FSA unit being enrolled. At a later time, FSA may ask for production evidence to substantiate the certified values. Acceptable documentation includes crop insurance records used to establish the actual production history (APH) yield on that FSA unit, as well as commercial receipts and settlement sheets, load summaries or other evidence of commercial sales. Records used to obtain USDA marketing loans or loan deficiency payments can be used, as well. Crops fed to livestock or disposed of through other channels are more problematic, but can be handled in much the same way that they were in the 2003 farm bill enrollment. It is important that

production that was commingled from several FSA units be disaggregated to each farm unit.

Risk protection

ACRE is a useful risk management tool in years with low prices or yield problems that affect most of the state. Although there is no guarantee that either of these will happen in the next four years, the potential payoff is large. Figure 1 illustrates the possible size of payments for the 2009 crop for a farm enrolled in ACRE with average yields of 175 bushels per acre for corn and 50 bushels per acre for soybeans, in a 50-50 rotation. Results are

Figure 1. Potential USDA Payments under ACRE and CCP (average yields)



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shown for different price levels, assuming both the farm and the state have average yields in 2009. Prices are national marketing year cash prices. The payments also include direct payments from USDA. When prices are at \$4 for corn and \$10 for soybeans or higher, only direct payments are received. Under ACRE, direct payments are reduced by 20 percent compared to the current CCP option.

Under lower price scenarios, ACRE payments make up for lost revenue. Current projections

show that with average yields, marketing year prices would have to average under \$3.67 for corn and \$8.92 for soybeans to trigger ACRE payments. Under the current counter-cyclical program, however, payments do not begin until prices are below \$2.35 for corn and \$5.36 for soybeans.

Producers have until August 14 to enroll in the DCP program for 2009. If they do not elect ACRE this year, they still have the option to elect it in a future year, through 2012.



Tracking biodiesel profitability

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The profitability of biodiesel production is extremely variable. Due to the volatile price nature of biodiesel and soybean oil, its major feedstock, biodiesel profitability can change rapidly from month to month. In addition, price variations of its co-product (glycerine) and its energy source (natural gas) add to the variability of biodiesel profits.

To track the profitability of biodiesel production, an economic model of a typical northern Iowa¹ biodiesel plant was created. This is a 30 million gallon facility with construction costs similar to plants built in 2007. The costs and efficiencies are believed to be typical of northern Iowa biodiesel plants. The prices of biodiesel, glycerine, soybean oil and natural gas are updated monthly to compute the current profitability of biodiesel production.

Monthly price variables

- 1) **Biodiesel Price** – Weekly price F.O.B. (Free on Board) for the plant (converted into monthly average prices) as reported in the National Weekly Ag Energy Round-up by the USDA Ag Marketing Service.
- 2) **Soybean Oil Price** – Daily price converted

into monthly average prices as reported by the USDA Ag Market Research Service, Iowa Soybean Processors Report

- 3) **Methanol Price** – Monthly average regional posted contract price history reported by Methanex.
- 4) **Natural Gas Price** – Monthly Iowa natural gas price for industrial users as reported by the Energy Information Administration (official energy statistics of the U.S. government).

Although these prices are representative of northern Iowa biodiesel plants, they may not be representative of plants in other regions or states. In the economic model the user can increase or decrease any of the price series by a fixed amount to represent a special situation. An adjustment in a price series will be reflected in the analysis tables and graphs.

To show how this facility would have performed in the past, the monthly profitability time-series is started in January, 2005. Although this facility would not have been in production at this time (built in 2007), it provides a perspective on how this facility would have performed historically.