Farm Management Update

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Counter-Cyclical Payments in the New Farm Bill


Matt Roberts

At a recent conference, I saw an outlook presentation by an executive of a major marketing advisory service. His presentation was typical, similar to dozens of others I have seen and given—until he began to discuss the implications of the new farm bill on marketing. He made a very clear point that the new Farm Bill, and specifically that the counter-cyclical payment, made crop marketing much more important, and more difficult. The previous day, an executive of a major agricultural news and services firm, speaking to a national conference, said that if prices are near or slightly above loan rates, but below the target rate, then it will be important for producers to protect the CCP. This story was carried by all of the major agricultural news outlets.

But these two, along with countless others, have already influenced many farmers that CCP is a major component of marketing decisions. During the Fall Outlook and Policy meetings, many farmers asked how they should alter their marketing strategies in response to the CCP. Fortunately, there is a simple answer: they shouldn't. Counter-cyclical payments don't matter for marketing. Unfortunately, the explanation takes a bit longer.

In response to the high yields and low prices of the late 1990s, the 2002 Farm Security and Rural Investment Act added 'counter-cyclical payments' to the commodity support programs. The CCPs act to increase payments in response to low prices, eliminating the need for market loss assistance payments like those in 1997–1999. In order for them to comply with WTO regulations limiting the amount of trade-distorting subsidies, the payments are made in response to historical acreage and yields, not realized harvest.

Before we go any further, let's clarify how counter-cyclical payments are calculated. Counter-cyclical payments are made according to:

CCP = (TP – FP – Max(AFP, LR)) * 85% * (PFCY * PFCA)

Where TP are commodity target prices, FP are fixed payments (similar to the AMTA payments of the 1996 FAIR act), AFP is the (nationwide) average farm price, LR is the loan rate, and PFCY and PFCA are the PFC yields and acres. In words, this means that the CCP price is equal to the target price less the fixed payment less the greater of the average farm price and the loan rate. The target prices, fixed payments, and loan rates for 2002 and 2003 are:

	Fixed Payments	Loan Rate	Target Price
Corn	0.28	1.98	2.60
Soybeans	0.44	5.00	5.80
Wheat	0.52	2.80	3.86

The key to understanding CCPs and marketing is realizing that the CCP received by farmers is not affected by their marketing decisions. Marketing under the new farm bill should be done with the same goals as before: maximize profits with an acceptable level of risk. If a farmer thinks that prices will rise, he should delay sales. If prices are expected to fall, then the farmer should sell now. This was true under the 1996 FAIR act, and is still true under the 2002 FSRIA.

Consider the decision to store crops on-farm: a farmer storing grain only holds the grain as long as the expected increase in prices outweighs the cost of storage. CCP doesn't affect the expected change in prices or the storage cost. While it is true that if prices rise through the marketing year, farmers who store will receive higher prices than those who sell at harvest, this is true whether or not CCPs exist.

While the 2002 FSRIA does require farmers to make some difficult decisions, such as whether to update PFC acres and/or yields, it doesn't change how they market their crops. If storage is profitable, farmers should store, otherwise they should sell. This doesn't mean that CCPs have no farm management implications; they might be relevant to planting decisions, but that will have to wait for another issue of the Farm Management Update.

Meat Goats, A Field of Dreams for Agriculture

Dave Mangione

Meat goats, are they for real or like the emu and ostrich—here today, gone tomorrow?

Historically, livestock producers in this country have produced traditional commodities related to beef, pork, lamb, dairy and poultry. However, the shifting demographics of the United States may open up opportunities for non-traditional commodities such as meat goats. It has been a long time since we have seen an opportunity in the livestock sector where the demand for the commodity far outweighs the supply.

Over the past twenty years there has been a significant change in the ethnic make-up of this country. People emigrating from such countries as Latin America, the Middle East, Asia, India, Africa, Turkey, Indonesia and people from the Caribbean changed the face of a once European-based population in the United States. Immigrants from these countries represent a large Hispanic population along with a significant Muslim based population, having a preference for goat meat. The Muslim population, like the Jewish community, has some religious restrictions to their diet based upon religious belief. The term Halal refers to the religious ceremony associated with the harvesting of goat, lamb, beef or poultry for human consumption.

So where have these new ethnic populations settled in the United States? The Hispanic population in the country is predominantly located in Texas, California, southwest New York City and cities of the northeast. Immigration figures project that from 1995 to 2050, 57% of the immigration to the United States will be represented by Hispanic ethnicity. Additionally by 2050, the Hispanic population will represent 25% of the total U.S. population.

The Muslim communities are concentrated in the urban belt from Washington, D.C., to Boston and found in many other urban centers across the country. The U.S. Census reveals a population of Muslims greater than 7 million in a geographic region from Detroit to Louisville. Caribbean immigrants, who represent the third largest group of new immigrants, have settled in Miami and New York City. Current census data estimate population numbers of Hispanics as greater than 19 million, Muslims greater than 14 million and people from the Caribbean between 1 and 2 million.

The numbers of meat goats slaughtered at USDA inspected slaughtering facilities in 1977 was approximately 45,000 head. By 1998 approximately 450,000 head, a 1000% increase, were processed at USDA inspected plants. This does not account for the number of goats processed privately under a non-inspected environment. During 1989 the exporting of goat carcasses exceeded imports by 300–400 metric tons. By 1998 the exporting of chilled/frozen goat carcasses was practically non-existent, a direct correlation to the demand for goat presently in the United States. Australia and New Zealand are the major exporters of whole frozen goat carcasses into the United States.

This scenario presents another question; what type of goat meat is preferred by these new ethnic populations? The Hispanic population prefers young kids, referred to as cabrito, weighing 15 to 25 pounds, or young goats yielding a 25-pound carcass. The Muslim community prefers slightly heavier carcasses of 35 to 50 pounds, which is lean and processed in Halal fashion. People from the Caribbean prefer mature goats for the purpose of making goats head soup and goat curry.

How does a producer access these new ethnic based markets? First, it is important to understand the culture of the population. In most cases we are dealing with cultures placing a great amount of importance on building lasting relationships. Additionally, the process of bartering or haggling to establish price is part of their culture. Our traditional methods of marketing livestock will be challenged and in many cases not accepted in this new ethnic arena. The Muslim community in particular prefers to buy direct from one person, be that a farmer, order buyer, etc. Customers buy their own animals direct from the farm or from order buyers from two of the largest goat auctions located in New Holland, Pennsylvania, or Hackettstown, New Jersey. The goats are then trucked to one of the largest Halal processing plants in the northeast, Halal Meats, Inc., located in Paterson, New Jersey. This growing ethnic population has accepted the procurement of frozen goat carcasses, because their demand far exceeds the supply. The preference is for fresh product processed in the Halal fashion. It is the fresh goat market which creates a significant niche opportunity for farmers across the United States.

Currently the goat industry lacks any kind of infrastructure that we associate with our traditional livestock species. Changes that must occur in the building of the infrastructure for the goat industry include the following:

- The establishment of uniform meat goat production systems.
- The establishment of facilities which allow for the processing of livestock addressing the associated religious ceremonies such as Kosher and Halal.

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Value Added Opportunities for Agriculture—A Wave Into the Future

John Ellerman
Extension Marketing and Cooperative Development Specialist

Ohio's agricultural industry complex contributes somewhere in the range of \$56–\$68 billion to the state's economy and employs one-in-six Ohioans in areas related to agriculture. Agricultural production contributes total sales around \$4.5–\$6 billion annually. In 1910, about 44% of consumers' food expenditures went back to the farm. By 1990, that figure was less than 10%, and it is projected that this trend will continue. These trends have created an interest in value added enterprises for agriculture. As agricultural producers find it more difficult to make ends meet with diminishing profit margins from increasing input costs and shrinking commodity prices, more emphasis is being placed on adding value to those products with processing.

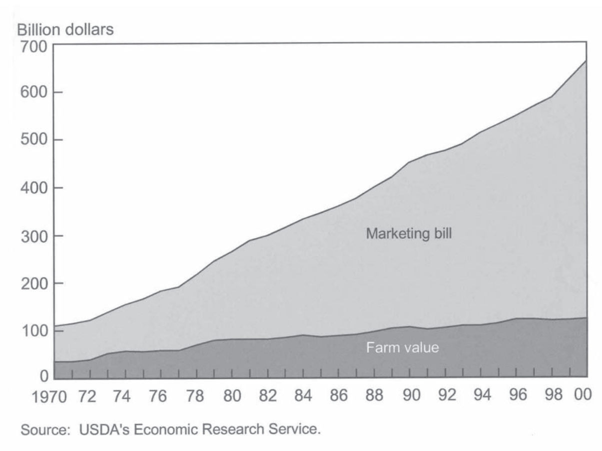
Value added agriculture does not, and probably never will, increase commodity prices, but it can add value to those products by performing activities usually performed by someone else. The benefit comes from the value added activity performed. Another distinction is that the value added goes back to producers both directly or through producer owned businesses, not agribusiness processors. Some of the ideas being developed for value added enterprises in Ohio are a straw board plant, a corn ethanol plant, white pine processing, meat goat processing, fish processing, vegetable processing, and soybean processing. There are many other ideas waiting to be developed. These developments will help to support and sustain agriculture in Ohio.

Predicted trends in agriculture that support the development of value added agriculture activities are:

- To stay competitive, U.S. farming must move towards a more industrial model in order to cooperatively produce products with improved, consumer driven attributes. The focus of the production sector will continue to move away from growing products and towards the manufacturing of goods with value added consumer-driven attributes. Niche markets and a growing demand by consumers for a variety of preprocessed, ready-to-cook, and ready-to-eat foods will become a significant force in the development of value added products.
- Food supply chains will rely on vertical integration and coordination techniques of production, marketing, and/or processing to optimally deliver products with attributes that meet specific end user needs.
- Food safety and quality control will become a driving force in the food sector. Consumers will become more sensitive to where their food comes from and how it was produced.
- Consumers will become more involved with environmental, social, and cultural issues related to agriculture.

Consumers' demand for more processed foods is reflected in the growing wedge between annual food expenditures and the value of farm commodities (fig. 1). In 2000, consumer expenditures for domestic food (excluding seafood) consumed at home and away from home totaled \$661 billion. The value farmers contribute to food expenditures by providing agricultural commodities accounted for \$123 billion, or about 19% of the total value and the majority of that pays for production inputs. The remaining 81% reflects the value added as labor, advertising, processing, transportation, packaging, and other marketing costs incurred transforming farm commodities into food products and meals. This trend is likely to continue. Farmers will be challenged to increase their share of the marketing bill through vertical integration and coordination to survive.

Figure 1



The popularity of dining out is a clear indication of market trends. Expenditures on away-from-home food now account for about 47% of total U.S. food expenditures and it is predicted that away-from-home expenditures will exceed at-home expenditures by 2010.

Another form of value added agriculture is direct marketing. Many producers are finding that the way they sell their products significantly affects their profits. Direct marketing does not require substantial capital investments. It fits into the urban development trends that are now occurring in Ohio and a consumer demand trend for healthy food products. The berry industry is an example of production that is driven by a consumer demand trend for a healthy and nutritious product. There is also a growing consumer interest in locally grown food that can be traced back to where it came from and how it was produced.

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The National Organic Program: Implications for Ohio Producers

Marvin T. Batte and Neal H. Hooker

The U.S. market for organic food is expanding rapidly, growing at a rate of 20 percent or more annually since 1990. However, we have just entered a new era in organic marketing following the final implementation of National Organic Program (NOP) on October 21, 2002. Previously, consumers were confronted with a diverse array of organic standards at the state, retailer, or product levels, making it difficult to consistently and reliably compare one organic product to another. In an effort to resolve this confusion, the U.S. Department of Agriculture has formalized what it means to be organic, with products that meet the standard able to use the new NOP seal.

To be able to use the term organic, the crop must come from a farm that is certified by a state or private agency accredited by USDA. The product may not be genetically modified, sewage sludge cannot be used as a nutrient source, hormones or antibiotics cannot be used on livestock, and irradiation may not be applied as a processing intervention. Small operations (selling less than $5,000 of organic products annually) are exempted from certification but must still meet the other elements of the NOP. Organic farming may be particularly suited for highly populated areas, where consumers increasingly are willing to pay for organic foods, where farmland competes with development pressures, and where citizens raise social and environmental objections to conventional industrialized agriculture. Research is planned at Ohio State University to consider the impact of the NOP on both producers and consumers of organic food products.

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- Marketing a fresh product in a safe fashion directly to this emerging consumer base to capture the most value.

A current Extension publication "Meat Goat Production and Budgeting" (AS-14-02) authored by Tony Nye, Extension Agent, ANR, Clinton County, can be accessed through your local Extension office. Additionally, any producer interested in meat goats can access information through the Meat Goat Task Force by contacting Dave Mangione, Extension Specialist for Agriculture, at (740) 286-2177 or mangione.1@osu.edu. There is a real opportunity for farmers to network together through co-ops or other ventures to build the industry.

As the saying goes, "if you build it, they will come." Meat goats just may be our field of dreams for animal agriculture.

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Direct marketing and other value added enterprises require a change in focus by producers. They have to focus production around their market, rather than produce a commodity and sell it. The underlying concept is that there is a difference between marketing and selling. Producers who market their products are price makers, while producers who sell their products are price takers. It's possible to add value to products by direct marketing when producers assume the marketing functions traditionally done by others. It's another way for farmers to increase their share of the marketing bill.

Robert Moore

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