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SOUTH DAKOTA STATE UNIVERSITY

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1996 FARM BILL: SIGN UP



by

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SIGN UP NOW. There is only one opportunity to sign up for the new farm program and that is between May 20 through July 12, inclusive. You can get out anytime, but this is the only opportunity to get in on seven years' worth of benefits.

The Farm Bill of 1996, known officially as the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 was signed into law on April 4, 1996 and contains nine titles: (1) the Agricultural Market Transaction Act (AMTA), (2) Agricultural Trade, (3) Conservation, (4) Credit, (5) Agricultural Promotion, (6) Nutrition Assistance, (7) Rural Development, (8) Research, and (9) Miscellaneous. This article concentrates on AMTA, with only incidental comments on the conservation requirements.

AMTA

The Agricultural Market Transaction Act is the main part of the law; it is basically the Freedom to Farm Bill. The AMTA presents American farmers with the biggest change in farm policy in over 60 years. Not since the days of the New Deal have farmers participating in farm programs had as much freedom to determine what and how much they will plant. Along with this freedom comes the responsibility to make and accept the consequences of decisions based on market and production conditions.

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SOUTH DAKOTA'S PORK INDUSTRY - A FEW COMPARISONS



by

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Much has been written in recent years about the major changes taking place in the hog/pork industry. Most comments have addressed smaller numbers of producers, increased size of production units, vertical integration and new technology, including genetics. The industry has changed from what might be called "labor" based to "technology or knowledge" based.

This article focuses on changes which have occurred in S.D. in recent years and compares changes here to our neighbor, Iowa (the leading pork producer), North Carolina (a state experiencing dramatic changes in pork production), and the U.S.

Number of Types of Operations

The number of farm operations with hogs continues to decline. That is true whether one looks at S.D., Iowa, North Carolina or the U.S. (Table 1). Somewhat surprising, the decline in numbers between 1994 and 1995 was lowest in North Carolina. In S.D., the number of farms with hogs today is about one-third of the number with hogs only 20 years ago. **EXPECT CONTINUED DECREASES IN THE NUMBER OF HOG OPERATIONS.**

Table 1. Number of Operations with Hogs¹

| | S.D. | Iowa | N.C. | U.S. |
|----------------|-------|--------|-------|---------|
| 1994 | 6,500 | 29,000 | 7,000 | 207,980 |
| 1995 | 5,400 | 25,000 | 6,600 | 182,700 |
| Percent Change | -17 | -14 | -6 | -12 |

¹Source: USDA Hog and Pig Report, Dec. 1, 1995.

(Continued on p.3)

Farmers will no longer receive payments tied to what they grow or don't grow. Payments will be paid on a declining basis over a period of 7 years during which producers are to get used to operating "on their own" in a more free world market. During the 7 transition years, producers can grow any crops they want, except for some restriction on fruits and vegetables, and still receive the transition payments. The size of payments will depend on crop bases that existed on farms as of the 1995 crop year.

Payments will be received twice a year, the first on December 15 or January 15, at the farmer's choice, and the final payment on September 30. In 1996, the first payment will come 30 days after sign-up.

To receive these payments, the producer must sign a 7 year production flexibility contract (PFC) with the USDA in which he or she agrees to abide by an approved conservation plan, keep the land in agricultural production or related activity, not violate the sodbuster or swampbuster rules, and not use contract acres for fruits or vegetables. The term "contract acres" is the new name for the old commodity base acres.

Sign-up Period Limited

There will be a onetime sign-up period running from May 20 through July 12, 1996. After July 12, no more land can be signed into the program, except for CRP land which comes back into production after August 1, 1996. Any farm which participated in the farm program at least one of the last 5 years (1991-1995 inclusive), or reported acres planted at least one year during that time, is eligible.

Planting Restrictions

A producer can grow any crop he wants to on the contract acres except fruits and vegetables (FAV). Fruits and vegetables can be grown on "non-contract", or "other crop", acres, i.e., on land on which such crops as soybean and alfalfa were grown in the past. If the farm has a history of FAV production, the historical acreage of FAV can be grown on contract acres with an acre-for-acre reduction in payments. Producers who want to grow more FAV will need to convert contract acres to "other crop" acres and lose payments on those acres.

Crop Rotations

On small farms which are planted to just one crop each year, but to different crops over the years, the bases for payments will be determined by the total acres and rotation. For example, if an 80 acre farm had a history of all corn one year followed by all soybeans the next, it would have 40 acres of corn contract acres and 40 acres of "other crop" acres.

Lease Arrangements

If land is operated on a crop-share basis, the land owner and the tenant must share the government payment, but not

necessarily in the same ratio as they share expenses or production. The Farm Service Agency (FSA) will accept just about anything a landlord and tenant agree to, unless it is obviously unfair to one party.

When there is a cash lease arrangement, the tenant must receive 100% of the government payment, but there is nothing to stop the land owner from asking for more rent. Also, with cash rents, only the tenant need sign the contract, unless the tenant wants to contract less than 100% of the potential contract acres, in which case the land owner must agree. However, it is recommended that in all cases both the tenant and land owner sign the contract. This could prove desirable in the future if changes in the rental arrangements, tenants, or land owners should take place.

Payments are tied to the land. This means that if land is sold, the new owner-operator gets the payments. If the land owner changes renters, the new renter gets the share the previous renter received. Land owners and tenants can negotiate contract changes at will, and the land owner has the right to change tenants at will as long as state tenancy laws are followed.

With the PFC's, there is no penalty for producers terminating contracts early. With previous programs, penalties and liquidated damages had to be paid if contracts were terminated prematurely. This means that a farmer can get out anytime, but once out cannot get back in. This is why it is so important to sign up during the onetime sign-up period, May 20 through July 12.

If the land is converted to a non-ag use, such as a highway or housing subdivision, the contract will be terminated and the payments stopped.

Conservation Requirements

Producers who enroll land in PFC must follow an approved conservation plan on land subject to erosion. The new law allows for greater freedom in conservation plans. On-farm research is encouraged by allowing, on a field trial basis, practices not currently approved in the Field Office Technical Guide, if they are considered to have a reasonable likelihood of success. This may be quite possible now because of the removal of planting requirements which were necessary in the past to maintain crop acreage bases.

Violations

If an operator or land owner is found to be in violation of his PFC, termination of the contract can result. However, the Secretary of the USDA has relief authority, which allows him to save the contract but reduce the payments due while the farm is out of compliance.

With the new law, up to one year may be provided for an operator to actively apply the conservation plan for his farm, if the operator has acted in good faith and without intent to violate. Procedures for granting temporary variances from conservation plans due to adverse weather

have been expedited. A decision must be made within 30 days, or the variance is considered granted. County committees can provide appropriate relief where application of a conservation plan would impose an undue hardship on a producer.

Cross Compliance

Cross compliance is required among farms. If an operator is out of compliance on one farm, he is considered out of compliance on all farms in which he has an interest. All farm contracts would be subject to termination. However, the FSA will try to confine any reduction in payments or contract termination to the offender to avoid causing hardship on others not directly involved in the violation.

Payment Limitations

There is a \$40,000 payment limitation on PFC payments, down from \$50,000 in the old law, but the 3-entity rule still applies. This means that a person can collect \$40,000 as an independent operator and have interest in a partnership and be a share holder in a corporation which also collect payments. However, the total payments to this individual cannot exceed \$80,000 from the 3 farm units.

Safety Net

Nonrecourse marketing loans and insurance are the main warp and woof in the safety net. Farmers participating in PFC's are entitled to marketing loans on their entire output of feed grains, cereal grains and oilseeds. The loan rates may be adjusted by the Secretary of Agriculture to minimize the amount forfeited to the government. In times when stocks-to-use ratios are high, the loan rate can be reduced to discourage production of that commodity. Loan deficiency payments (LDP's) will be available as in the past. There is a \$75,000 limit to the amount a producer can collect in LDP's and the 3-entity rule applies.

Insurance may be purchased by farmers to cover times of low yields. Producers who choose not to buy insurance must sign a waiver which relieves the government from making any disaster payments to those producers, should a disaster be declared in their counties. Therefore, it seems wise for a producer to seriously consider buying at least the minimum amount of coverage. More coverage may be economically desirable.

Final Word

There are many benefits to be gained from signing a flexible planting contract with very few, if any, negative ramifications. Farmland that is not enrolled will still have to be managed in accordance with sodbuster, swampbuster and other government restrictions on farming operations. Therefore, tenants and land owners, if you have land that qualifies to be contracted with the USDA, don't miss the sign-up period! The value of your land will be affected by its enrollment status, as will your income. If you want out

later, you can always get out but cannot get back in.

(Murra... cont'd from p.1)

The farrow-to-finish hog operation is the most common hog production enterprise on farms in all compared states (Table 2). It comprised 64% of all hog operations in North Carolina. In S.D., there were only 43% of the facilities in this category. **EXPECT MORE SPECIALIZATION (FARROW ONLY AND FINISH ONLY WITH SOME TYPE OF NETWORKING) IN HOG PRODUCTION OVER THE NEXT SEVERAL YEARS.**

Table 2. Types of Hog Enterprises¹

| | <u>S.D.</u> | <u>Iowa</u> | <u>N.C.</u> | <u>U.S.</u> |
|---------------|-------------|-------------|-------------|-------------|
| Farrow Only | 24% | 17% | 15% | 27% |
| Farrow/Finish | 43% | 50% | 64% | 35% |
| Finish Only | 33% | 33% | 21% | 38% |

¹Source: USDA Hog and Pig Report, Dec. 1, 1995.

Size of Operation and Production by Size

In spite of the trend toward bigness, most hog enterprises still would be categorized as "small" or less than 500 head (Table 3). As can be noted in the table, between 64% (Iowa) and 85% (U.S.) of the hog operations are in this category. In S.D., the number is close to 75%. It should be noted that in North Carolina (a state known for large hog enterprises) 66% of the hog operations are less than 100 head. Note also, however, that North Carolina has by far the largest percentage of 2000 head and over facilities. **EXPECT CONTINUED SHIFTS TOWARD BIGNESS.**

Table 3. Percent of Hog Farms by Size¹

| <u>Number of Head</u> | <u>S.D.</u> | <u>Iowa</u> | <u>N.C.</u> | <u>U.S.</u> |
|-----------------------|-------------|-------------|-------------|-------------|
| 1-99 | 34 | 21 | 66 | 60 |
| 100-499 | 49 | 43 | 7 | 25 |
| 500-999 | 12 | 23 | 4 | 8 |
| 1000-1999 | 3 | 9 | 6 | 4 |
| 2000 or more | 2 | 4 | 17 | 3 |

¹Source: USDA Hog and Pig Report, Dec. 1, 1995.

While small enterprises continue to dominate in numbers, they are relatively small contributors to pork production (Table 4). The two smallest size categories produce less than 45% of S.D. production, less than 25% of Iowa's production, and only 2½% of North Carolina's production. The largest size category accounted for 88% of North Carolina's production--only 23% in S.D. **EXPECT CONTINUED CONCENTRATION OF PRODUCTION IN THE HANDS OF THE LARGEST FIRMS.**

Table 4. Percent of Inventory By Size¹

| <u>Number of Head</u> | <u>S.D.</u> | <u>Iowa</u> | <u>N.C.</u> | <u>U.S.</u> |
|-----------------------|-------------|-------------|-------------|-------------|
| 1-99 | 4.5 | 1.5 | 1.0 | 4.0 |
| 100-499 | 38.0 | 22.0 | 1.5 | 18.0 |
| 500-999 | 21.0 | 28.0 | 2.5 | 18.0 |
| 1000-1999 | 13.5 | 22.0 | 7.0 | 17.0 |
| 2000 or more | 23.0 | 26.5 | 88.0 | 43.0 |

¹Source: USDA Hog and Pig Report, Dec. 1, 1995.

Production and Slaughter

There are several ways to measure production. One way is the pig crop. When the June-November pig crop is used, several results are of note. (The June-November pig crop accounts for about one-half of the pigs born each year.) First, the June-Nov pig crop in S.D. decreased by 19% from 1988 to 1995. In Iowa, the decrease was only 1%. The U.S. increase was 9%. That, however, pales in comparison to the 207% increase in North Carolina (Table 5). **EXPECT MORE RAPID GROWTH IN STATES WHICH HAVE NOT BEEN CONSIDERED "HOG" STATES, SUCH AS OKLAHOMA, ARKANSAS, AND TEXAS.**

Table 5. June-November Pig Crop¹

| | (000 head) | | | |
|----------------|------------|--------|-------|--------|
| | S.D. | Iowa | N.C. | U.S. |
| 1988 | 1,561 | 10,839 | 2,378 | 45,732 |
| 1995 | 1,263 | 10,725 | 7,310 | 49,914 |
| Percent Change | -19 | -1 | +207 | +9 |

¹Source: Livestock Marketing Information Center, Denver.

Hogs often are not slaughtered where they are produced. In some areas, there has been a decrease in slaughter. However, for the areas compared, all exhibited an increase in hog slaughter since 1988 (Table 6). Once again, note the big increase in North Carolina. They now are ahead of S.D. but still trail Iowa by a large margin. **EXPECT GROWTH IN HOG SLAUGHTER IN AREAS WHERE PRODUCTION ALSO IS GROWING.**

Comments on Production and Slaughter

It is evident in the above information that processors in both S.D. and Iowa slaughter more hogs each year than are produced within the states. In 1995, 30.2 million hogs were slaughtered in Iowa. Check off data from the National Pork Board indicated that Iowa producers sent only 22.5 million head to slaughter in the state, a difference of almost 7.7 million head. The same comparisons can be made for S.D., where slaughter in 1995 was about 6.1 million head and S.D. producers supplied only 2.8 million head, a difference of 3.3 million head. S.D. processors slaughtered more "imported" hogs in 1995 than were produced in the state.

Table 6. Commercial Hog Slaughter

| | (000 head) | | | |
|----------------|------------|--------|-------|--------|
| | S.D. | Iowa | N.C. | U.S. |
| 1988 | 4,004 | 24,892 | 2,857 | 87,738 |
| 1995 | 6,084 | 30,187 | 7,597 | 96,328 |
| Percent Change | +52 | +21 | +166 | +10 |

¹Source: Livestock Marketing Information Center, Denver.

The above situation has several implications. First, producer prices in states which have excess slaughter capacity generally are higher than in states where production exceeds capacity. For example, hog prices in Iowa averaged \$41.40 in 1995 and in S.D. they averaged \$41.70. Prices averaged only \$39.10 in Missouri, and \$35.50 in Texas, both surplus states.

Second, there is a strong dependency on "imported" hogs -- "imported" here includes hogs shipped into S.D. from both other states and Canada. If the sources of imported hogs "dried-up", either because of more processing plants being built closer to production or because of lower production in those areas, our processing industry could be in trouble.

Third, in view of the second point, processors in "importing states", including S.D., may look elsewhere. And, that "elsewhere" could be closer to production.

Final Comments

Changes have occurred in the nation's and state's hog industry. **EXPECT THOSE CHANGES TO CONTINUE.** Producers will become more technology, record keeping, profit and consumer oriented. They will become less labor and producer oriented. **DON'T EXPECT TO CONTINUE TO DO BUSINESS AS IN THE PAST. EXPECT TO GIVE UP SOME FREEDOM.**

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