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Bradley Lubben
University of Nebraska-Lincoln, blubben2@unl.edu

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Agricultural Disaster Assistance On the Way for 2005-2007

Market Report	Yr Ago	4 Wks Ago	6/1/07
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$81.87	$95.67	$92.42
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	*	127.92	125.00
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	114.00	111.83	106.87
Choice Boxed Beef, 600-750 lb. Carcass	150.99	156.48	156.07
Western Corn Belt Base Hog Price Carcass, Negotiated	69.27	73.07	69.87
Feeder Pigs, National Direct 50 lbs, FOB	48.08	66.96	61.00
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	69.70	75.74	75.39
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	76.00	90.75	95.75
National Carcass Lamb Cutout, FOB	206.06	245.97	250.20
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu	4.33	4.56	4.73
Corn, No. 2, Yellow Omaha, bu	2.10	3.66	3.79
Soybeans, No. 1, Yellow Omaha, bu	5.60	6.94	7.55
Grain Sorghum, No. 2, Yellow Columbus, cwt	3.09	5.88	5.80
Oats, No. 2, Heavy Minneapolis, MN , bu	2.15	2.77	2.95
Hay			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	130.00	135.00	136.00
Alfalfa, Large Rounds, Good Platte Valley, ton	65.00	92.50	*
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	55.00	90.00	*

* No market.

After a long and contentious political battle, Congress passed, and the President signed agricultural disaster assistance, as part of a supplemental spending bill in late May. The assistance provides support to crop and livestock producers for losses over the 2005-2007 period and was estimated to be worth approximately $3 billion nationwide.

The three-year time horizon for the legislation is indicative of the challenging political process for the assistance. More than a year ago, the debate was on-going about an assistance package to address agricultural losses in 2005. That assistance was considered as part of several spending measures, but was never approved. Then the assistance package focused on losses for 2005-2006, but ended up not being part of a continuing resolution covering appropriations for the current fiscal year. In the end, the package added part of the 2007 calendar year and was included as part of the add-on spending to the supplemental funding bill for the military.

The potential impact of the assistance package for Nebraska producers is significant. Based on work done in collaboration with colleagues at Kansas State University, the economic impact of the crop portion of the assistance could be over $30 million to Nebraska producers. The livestock portion of the package could add approximately $43 million, bringing the total to more than $73 million in assistance. In addition, some other provisions of the package may add additional support to Nebraska agriculture this year and in the coming years.

Crop Disaster Program

A major part of the assistance package is a Crop Disaster Program similar in design to assistance in previous years. The program will compensate producers for quantity and quality crop losses below a threshold level of 65 percent of the producer's established yield, at a rate of 42 percent of the established price. Producers can receive benefits for crop losses in one of the years of 2005, 2006, or 2007. In the case

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of 2007 crop losses, the benefits are limited to crops that are planted or would have been planted prior to February 28, meaning wheat losses in 2007 could be covered.

There are a few important restrictions on this assistance. Only producers who purchased crop insurance on the crop, or in the case of non-insurable crops, signed up for the non-insured assistance program, are eligible for assistance. In addition, any disaster payments may be limited to the extent that the sum of actual crop value, net insurance indemnity payments, if any, and crop disaster payments exceeds 95 percent of the value of the crop had there been no loss. To be eligible for assistance, the producer must meet the same $2.5 million adjusted gross income cap as used for commodity programs in the 2002 Farm Bill. And, there likely will be an $80,000 payment limit per individual on crop disaster payments.

The estimated benefits of around $30 million are based on comparing crop insurance indemnities in 2005 and 2006. While individual producers may have seen and claim bigger losses in either 2005, 2006 or 2007 (in the case of wheat), it is clear from the insurance claims that 2006 was the year of biggest losses in most crops across most of the state.

Livestock Assistance

The assistance package also includes a Livestock Compensation Program to provide producers a fixed payment per head for livestock in disaster counties. Here too, the assistance can be claimed for losses in either 2005, 2006 or 2007 prior to February 28. Given that all counties in Nebraska were declared primary or contiguous disaster counties at some point in the three-year period, producers in all counties will be eligible for this assistance, subject to other guidelines.

If the implementation of the program follows the model of the 2006 Livestock Compensation Program put in place for losses in hurricane-damaged counties, the compensation will be based on eligible inventories of livestock, including beef cattle, dairy cattle, sheep, goats, swine, poultry and certain species, and a payment rate equal to 61 percent of the previous rate. The $2.5 million adjusted gross income cap and an $80,000 payment limit also will apply to benefits under this program.

An additional bit of livestock assistance comes from the Livestock Indemnity Program, which will reimburse producers for livestock mortality losses in disaster counties at a rate equal to 26 percent of the market value of the lost animals. As with the other programs, producers can only claim losses for either 2005, 2006 or 2007 prior to February 28. And, the same $2.5 million adjusted gross income cap and $80,000 payment limit apply.

Estimating total benefits under these programs is difficult because of uncertainty in the percentage of total livestock inventories eligible for assistance, and because of the unknown number of documented livestock losses from various recent storms. Based on some analysis of beef, dairy, sheep, goat and swine inventories, the estimated impact of the Livestock Compensation Program is around $43 million. While total livestock mortality losses from the severe storms are unknown, the loss of several thousand head could lead to payments of as much as a few million dollars to Nebraska producers.

Other Provisions

The assistance package also includes some additional funding for some smaller programs, but more significantly, includes some language that affects two significant farm bill programs. The legislation extends the Milk Income Loss Contract (MILC) program for one month, from the end of August to the end of September, meaning the program will continue through the end of the current farm program. As such, the MILC program should be included in the baseline budget for the new farm bill and thus, should not require several billion in cuts elsewhere to be continued. The legislation also removes a spending restriction on the Conservation Security Program (CSP) for fiscal year 2007. This may allow sign-up to proceed yet in the current year and could alleviate some concerns over CSP payments on existing contracts that were due to increase in 2007, but were limited by the spending constraint.

Summary

In summary, the assistance package will provide tens of millions of dollars in support to Nebraska producers for crop and livestock losses in 2005-2007. Perhaps more significantly, it will impact the current debate on the new farm bill. Disaster programs and crop insurance programs have both been a significant part of the farm safety net for many years, yet they generally conflict with each other. Continual disaster programs reduce the incentive for producers to invest in crop insurance. While the current crop disaster program addresses that disincentive with a restriction on assistance only to insured acres, the mere development of a disaster program continues the policy conflict between support tied to federally-subsidized insurance programs and support tied to ad hoc congressional measures. This will certainly be part of the debate as the development of the new farm bill continues in Congress.

Bradley D. Lubben, (402) 472-2235
Assistant Professor and
Extension Public Policy Specialist
Department of Agricultural Economics
University of Nebraska–Lincoln
blubben2@unl.edu

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