

July 31, 2009

ACRE PROGRAM GAINING MOMENTUM

The deadline to sign up for the Average Crop Revenue Election (ACRE) program at the Farm Service Agency is Friday, August 14th. Saline County farm elections have changed in a short period of time from 40 farms to 180 as of July 30th. ACRE could hold a large advantage over the existing counter cyclical payment program (CCP) in terms of protecting Nebraska producers against revenue losses from current expected levels of the 2009 crop.

Recently there have been concerns or expectations that revenue will drop well below the last two year's national average corn price of \$4.10 to \$4.20 per bushel. If we experience a price decline with the 2009 crop, then ACRE will certainly pay quicker and much more than the CCP. But the choice of ACRE is irrevocable for the life of the farm program through 2012, so the analysis needs to be of potential protection and payments over the four-year period, not just 2009. While a drop in revenue from year to year will eventually drop the guarantee as well, the potential downside protection under ACRE still looks to be greater than that provided under the CCP.

But there is also the cost of giving up 20 percent of the direct payments each year to participate in ACRE. That could amount to about \$6 per base acre in irrigated corn and \$3 per base acre in dryland corn. If price expectations for 2009-2012 are steady to increasing, then the potential payments under ACRE could be very small, if at all, and the producer would be out the amount of the lost direct payment. On the other hand, it also might effectively be a small premium to pay for the downside risk protection that ACRE could provide over the same four years.

With all of the data known to date, it appears that ACRE could be a very attractive farm program option for Nebraska producers in 2009 and beyond. I assisted in quite a few computer runs using the Texas A&M program last week at www.afpc.tamu.edu. These Saline County farms often indicated a 95-98 percent chance out of 500 different scenarios that ACRE was the best choice.

Beyond some of the program details there are some general economic implications of ACRE that are important to producers and their risk management decisions. By protecting revenue losses instead of price losses, the ACRE program more directly protects a producer's bottom line than does the existing CCP program. And, by protecting the farm's planted acreage instead of the farm's base acreage, the ACRE program also improves the risk protection provided by the farm program. But, it is also clear that ACRE is limited in the amount of risk protection it can provide.

First, since ACRE payments are limited to no more than 25 percent of the guarantee, it is clearly not a complete replacement for crop insurance policies that protect losses below a certain deductible. Second, since the ACRE payment is based on shortfalls in state-level crop revenue and not farm level crop revenue, it does not directly protect the farm's crop revenue risk. And third, as noted, the ACRE program comes with a 20 percent cut in the DP and a 30 percent cut in marketing loan rates. But because fall delivery prices were \$3.44 last week, momentum leaning towards ACRE election is picking up.

Randy Pryor, Extension Educator
University of Nebraska-Lincoln Extension in Saline County
306 West 3rd Street, Wilber, NE 68465

Phone (402) 821-2151 • Fax (402) 821-3398 • e-mail: randy.pryor@unl.edu