UNIVERSITY OF ARKANSAS
DIVISION OF AGRICULTURE

*Cooperative Extension Service*

*United States Department of Agriculture, University of Arkansas, and County Governments Cooperating*

# Farm Management and Marketing Newsletter

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## Contents



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## 2008 Farm Bill Select Farm Service Agency Bullets

*Bobby Coats, Professor and Extension Agricultural Policy Analyst, U of A Division of Agriculture, Agricultural Economics and Agribusiness Department*

USDA's Farm Service Agency (FSA), in partnership with the Cooperative Extension Service, Arkansas Farm Bureau, Arkansas Agriculture Department, University of Arkansas at Pine Bluff's Small Farm Program Division, and the Arkansas Game and Fish Commission, held a series of town-hall meetings throughout the state to discuss new rules and regulations for the newly enacted 2008 Farm Bill. The meetings highlighted the changes to existing farm programs and guidelines for newly enacted areas. Topics addressed included: new direct attribution and payment limitation rules, the new Average Crop Revenue Election Program (ACRE), revisions to the Direct and Counter-Cyclical Program (DCP), five new Disaster Programs, new incentives to the Farm Storage Facility Loans, new options in Conservation Programs, changes to Price Support Programs and changes to the Non-insured Disaster Assistance Program (NAP).

Below are a few items of interest from FSA:

- **2009 CATASTOPHIC RISK PROTECTION (CAT) BUY-IN ALLOWED FOR NURSERY:** Arkansas producers who have nursery operations are now being allowed to Buy-In to 2009 Catastrophic Risk Protection (CAT). The sales closing date for Nursery for Federal Crop Insurance has passed, however, a special waiver has been granted to allow nursery producers to pay the applicable insurance fee which will meet a linkage requirement for losses that may be covered under the Supplemental Revenue Assistance Payments (SURE) Program, TAP, Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP). The deadline to buy-in is January 12, 2009. Interested producers should check with their local FSA office for more details.

- **2009 DIRECT AND COUNTER-CYCLICAL (DCP) SIGNUP:** FSA is expected to announce the 2009 DCP signup very soon. It is projected that the signup will begin in December 2008 and concludes by June 1, 2009.

Continue to watch future SCOOPS and county office newsletters for official word of the beginning and ending signup dates.

- **PAYMENTS TO DECEASED PRODUCERS:** FSA must be notified **immediately** upon the death of producers who are participating in FSA programs. Failure to notify FSA and make modification to program contracts timely may result in a loss of benefits for the share of the deceased producers **and** the other producers on the program contracts**. *Producers are also cautioned to never sign using a power-of-attorney for a person who is deceased. Once a person dies the power-of-attorney is no longer valid. Any document signed with a power-of-attorney for a deceased is invalid, and usually all producers on the document are ineligible to earn payments for the year*.** In recent years, FSA has found that this is most common for the deaths of landowners on a farm. Often the tenant assumes that there are no changes and signs using a power-of-attorney, but in fact the landowner is now deceased. In all of these cases the payment to the landowner and the payment to ***all*** of the other producers on the farm were invalid and must be refunded. It is everyone's responsibility that signs a FSA document to ensure that the document they sign is correct. Don't' let this happen to you. It is very costly!

- **CONTROLLED SUBSTANCE PROVISIONS:** Any person who is convicted under Federal or State law of a controlled substance violation could be ineligible for USDA payments or benefits. Violations include planting, harvesting, or growing a prohibited plant. Prohibited plants include marijuana, opium poppies, and other drug producing plants.

- **FSA SIGNATURE POLICY:** Using the correct signature when doing business with FSA can save time and prevent a delay in program benefits. The following are FSA signature guidelines:

    - A married woman shall sign her given name: Mrs. Mary Doe, not Mrs. John Doe
    - For a minor, FSA requires the minor' signature and one from an eligible parent (Note, by signing the applicable document, the parent is liable for actions of the minor and may be liable for refunds, liquidated damages, etc.)
    - When signing on one's behalf the signature must agree with the name typed or printed on the form, or be a variation that does not cause the name and signature to be in disagreement. Example - John W. Smith is on the form. The signature may be John W. Smith or J. W. Smith or J. Smith. Or Mary J. Smith may be signed as Mrs. Mary Joe Smith, M.J. Smith, Mary Smith, etc.
    - FAXED signatures will be accepted for certain forms and other documents provided the acceptable program forms are approved for FAXED signatures. Producers are responsible for the successful transmission and receipt of FAXED information.
    - Spouses may sign documents on behalf of each other for FSA and CCC programs in which either has an interest, unless written notification denying a spouse this authority has been provided to the county office
    - Spouses shall not sign on behalf of each other as an authorized signatory for partnerships, joint ventures, corporations, or other similar entities
    - Spouses may sign on behalf of each other's individual interest in a partnership, unless notification denying a spouse that authority is provided to the county office
    - Acceptable signatures for general partnerships, joint ventures, corporations, estates, and trusts shall consist of an indicator "by" or "for" the individual's name, individual's name and capacity, or individual's name, capacity, and name of entity

For additional clarification on proper signatures and FAXED forms contact your local FSA office.

- **E-Forms:** Producers with Internet access can fill out and print a variety of FSA paper forms at home. Producers are encouraged to register for secure electronic access that will allow you to e-file (electronically sign and transmit) some forms directly to the county office staff. To sign and transmit forms electronically, you must sign up and get a user name and password. To sign up in person, visit the county office and complete form AD-2016. The staff will verify your identity and enter your information into the system. You will receive a letter with your temporary ID. You will be sent a second letter with your temporary password and instructions on how to activate your account. You then go to the Activation Web site and select a permanent ID and password. Submitting an e-Form is convenient. You can access information anytime day or night seven days a week. It's also faster. Forms and applications can be submitted and received in the county office in a matter of minutes, not days or weeks.

- **PARTICIPATION IN BOTH FARM PROGRAMS AND FARM LOAN PROGRAMS:** Producers and lenders are being reminded that FSA must ensure that producers consistently participate in Farm Loan Programs and Farm Programs, such as but not limited to DCP, LDP's, and CRP. For example: If FSA Farm Loan Program approves a loan for an individual to produce crops on FSN 100, then the applicable DCP payments must reflect that he is receiving payments as an individual and not as a corporation, partnership, or other. Producers are also reminded, although FSA is monitoring both Farm Loans and Farm Programs for consistency, farm producers are the ones that must be in compliance with all FSA programs.

For detailed analysis of the 2008 legislation and comparison to the previous farm bill visit USDA Economic Research Service Side-by-Side Comparison of the New Farm Bill with 2002-07 Farm Legislation (http://www.ers.usda.gov/FarmBill/) or for analysis by the Congressional Research Service visit the National Agricultural Law Center's website: http://www.nationalaglawcenter.org/assets/crs/RL34228.pdf.

For additional information concerning the newly enacted farm bill, parties should visit the University of Arkansas Cooperative Extension Service's 2008 Farm Bill Resource Center: http://www.aragriculture.org/agfoodpolicy/2008_Farm_Bill.htm. Additionally information is available through radio/podcasts by Robert Coats, Ph.D. (http://www.aragriculture.org/agfoodpolicy/radio/default.htm )

## Economic Results of the 2008 Corn Research Verification Program

*Scott Stiles, Extension Economist, University of Arkansas Cooperative Extension Service*

This report provides information on the development of estimated production costs for the 2008 Corn Research Verification Program (CRVP). Records of field operations on each verification field provided the basis for estimating these costs. The field records were compiled by the CRVP coordinator, county Extension agents, and cooperators in the 2008 CRVP.

Using CRVP production data from the ten (10) fields, operating costs, and net returns above total specified costs assuming a 25 percent (25%) land rent were estimated for each field. Break-even prices needed to cover total specified costs are also presented.

**Direct Expenses**
Direct expenses are those expenditures that would generally require annual cash outlays and would be included on an annual operating loan application. Actual quantities of all operating inputs as reported by the cooperators were used in this analysis. The prices used for these inputs were largely provided by the producer cooperators. When necessary, input prices were utilized from the "2008 Corn Cost of Production Estimates" published by the Cooperative Extension Service.

Fuel and repair costs for machinery were calculated using a budget generator based on parameters and standards published in the American Society of Agricultural Engineers 1993 Handbook. Therefore, the producers' actual machinery costs will vary from the machinery cost estimates that are presented in this report. However, the producers' actual field operations were used as a basis for calculations and his equipment size and type were matched as closely as possible to the existing data set used in the annual set of state crop budgets.

Direct expenses, shown in Table 1, for the CRVP fields ranged from $421.03 per acre for Conway County to $705.17 per acre for Prairie County and averaged $526.38 per acre. Direct expenses per bushel ranged from $1.80 in Conway County to $3.42 in Prairie County and averaged $2.60 per bushel. Due primarily to price increases in fertilizer and fuel, 2008 direct expenses were on average 46% higher for corn than in 2007. Fertilizer expense increased approximately 50% in 2008, while fuel expense nearly doubled, increasing 94% over 2007. Seed and herbicide expense increased as well in 2008.

**Fixed or Ownership Costs**

Fixed expenses represent the cost of owning farm equipment. These costs can vary greatly from one farm to another depending on the farm's size, management, and annual use of machinery. The fixed expenses presented in Table 1 include depreciation and interest. These costs are based on estimated initial cost and expected useful life of machinery similar to that used by the producer. Ownership costs were allocated on a per acre basis using estimated performance rates and hours of annual use. Calculations were made by using a budget generator based on parameters and standards published in the American Society of Agricultural Engineers 1993 Handbook. Fixed costs ranged from $44.53 to $97.55 per acre with an average of $54.42 per acre.

Using custom operators rather than owning equipment replaces fixed expenses with direct expenses (custom work). Cooperators with high fixed expenses but low custom work expenses typically use high-clearance sprayers for chemical applications and spreaders (buggies) for fertilizer applications instead of hiring aerial or ground custom applicators.

**Total Costs (Direct and Fixed Costs)**

Since fixed or ownership costs can be substituted for direct cost and vice-versa, total specified expense is calculated to give the true picture of expenses. Total direct and fixed costs presented in Table 1 are the summation of direct expenses and fixed or ownership costs. Not included in these costs are charges for land, risk, overhead, and management. Total direct costs plus ownership costs ranged from $513.07 to $766.85 per acre, with an average of $580.80 per acre. Break-even prices needed to cover total direct costs plus fixed costs ranged from $2.22 to $3.72 per bushel, with an average of $2.87.

**Land Costs**

Land costs incurred by producers participating in the CRVP would likely vary from land ownership, cash rent, or some form of crop share arrangement. For this reason, a 25 percent (25%) crop share rental arrangement, with no cost sharing was assumed to provide a consistent standard for comparison (Table 1). This is not meant to imply that this arrangement is normal or that is should be used in place of existing arrangements. It is simply a constant measure to be used across all CRVP fields.

Table 1 presents the cost of production per bushel after 25 percent (25%) of the yield is given to the landlord. These break-even prices ranged from $2.95 per bushel in Conway County to $4.96 per bushel in Prairie County.

**Net Returns Per Acre**

Table 1 presents estimated returns per acre above “Total Costs” plus a 25 percent (25%) crop share rent assuming a corn price of $5.01 per bushel. The corn producer price used in this analysis is the September 2008 monthly average price offered by various Arkansas delivery terminals. This information was obtained from the USDA Agricultural Marketing Service (AMS). Net returns above “Total Costs and Land Rent” ranged from $8.47 to $360.83 per acre. Additional costs related to risk, overhead, and management have not been included.

**Estimated Direct Costs**

Table 2 lists estimated direct costs per acre by field for corn production. The largest specified operating cost for corn was fertilizer, averaging $209.20 per acre. Seed, fertilizer, and fuel account for approximately 71% of corn input costs in the 2008 CRVP.

**Table 1. Selected Economic Information for the 2008 CRVP.**

| *County* | Total Direct Expenses[1] ($/A) | Break-even Price With Direct Costs[2] ($/Bu) | Total Fixed Costs[3] ($/A) | Total Direct and Fixed Costs[4] ($/A) | Break-even Price With Total Costs[5] ($/Bu) | Break-even Price With Land Rent Costs[6] ($/Bu) | Returns Above Total Costs and Land Rent Costs[7] ($/A) |
|---|---|---|---|---|---|---|---|
| **Corn** | | | | | | | |
| Conway | $421.03 | $1.80 | $ 97.55 | $ 518.58 | $2.22 | $2.95 | $360.83 |
| Cross | $510.03 | $2.99 | $ 61.57 | $ 571.60 | $3.36 | $4.47 | $68.57 |
| Independence | $588.64 | $2.91 | $ 54.92 | $ 643.56 | $3.18 | $4.25 | $115.68 |
| Lawrence | $563.72 | $2.62 | $ 48.77 | $ 612.49 | $2.84 | $3.79 | $196.99 |
| Lee | $555.82 | $3.07 | $ 45.67 | $ 601.49 | $3.32 | $4.42 | $79.56 |
| Lonoke | $465.95 | $2.05 | $ 47.12 | $ 513.07 | $2.26 | $3.01 | $341.39 |
| Monroe | $564.24 | $2.72 | $ 56.09 | $ 620.33 | $2.99 | $3.99 | $158.15 |
| Poinsett | $507.78 | $2.43 | $ 44.53 | $ 552.31 | $2.64 | $3.53 | $232.56 |
| Prairie | $705.17 | $3.42 | $ 61.68 | $ 766.85 | $3.72 | $4.96 | $8.47 |
| Pulaski | $511.83 | $2.58 | $ 45.44 | $ 557.27 | $2.81 | $3.75 | $186.87 |
| **Average** | **$526.38** | **$2.60** | **$ 54.42** | **$ 580.80** | **$2.87** | **$3.82** | **$191.27** |

[1] *Direct out-of-pocket, operating expenses, such as seed, fertilizer, irrigation, etc.*

[2] *Price per bushel required by the farmer to equal total direct costs. Does not include land, overhead, risk, and management costs.*
[3] *Total fixed or ownership costs which include charges for depreciation and opportunity cost of capital.*
[4] *Total direct operating costs plus fixed costs which include charges for depreciation and interest on all machinery and irrigation equipment.*
[5] *Price per bushel required by the farmer to equal total direct operating and fixed costs. Does not include land, overhead, risk, and management costs.*
[6] *Break-even price per bushel plus a 25 percent crop share rent. Does not include overhead, risk, and management costs.*
[7] *A 25 percent crop share rent was assumed as a land charge for a renter situation. No cost sharing was assumed.*

## Table 2. Estimated Costs per Acre for Corn Fields (all irrigated), CRVP 2008

| | Conway | Cross | Independence | Lawrence | Lee | Lonoke | Monroe | Poinsett | Prairie | Pulaski | weighted |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Acres** | **32** | **79** | **57.5** | **33** | **48** | **133** | **44** | **40** | **34** | **36** | **average** |
| **Direct Exp.** | *($/acre)* | *($/acre)* | *($/acre)* | *($/acre)* | *($/acre)* | *($/acre)* | *($/acre)* | *($/acre)* | *($/acre)* | *($/acre)* | ($/acre) |
| **Drying** | $44.47 | $32.37 | $38.39 | $40.93 | $34.44 | $43.21 | $39.55 | $39.69 | $39.20 | $37.63 | **$ 39.06** |
| **Fertilizer** | $134.00 | $195.65 | $295.00 | $245.47 | $232.00 | $158.00 | $250.25 | $174.40 | $279.85 | $215.95 | **$ 209.20** |
| **Fungicides** | $0.00 | $0.00 | $9.10 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | **$ 0.98** |
| **Herbicides** | $23.00 | $25.24 | $21.00 | $16.58 | $29.52 | $26.80 | $13.50 | $9.82 | $48.11 | $21.40 | **$ 23.97** |
| **Irrigation Supplies** | $0.00 | $10.30 | $0.00 | $10.30 | $10.30 | $10.30 | $10.30 | $10.30 | $10.30 | $10.30 | **$ 8.58** |
| **Crop Seed** | $74.81 | $76.00 | $77.90 | $87.40 | $78.38 | $80.75 | $80.75 | $83.13 | $101.83 | $76.00 | **$ 80.78** |
| **Custom Hire** | $35.11 | $32.31 | $45.81 | $50.81 | $53.94 | $53.11 | $52.73 | $47.33 | $66.05 | $56.21 | **$ 48.69** |
| **Operator Labor** | $6.88 | $6.97 | $5.91 | $4.42 | $3.91 | $3.31 | $4.97 | $2.55 | $6.65 | $3.24 | **$ 4.75** |
| **Irrigation Labor** | $0.56 | $4.96 | $1.20 | $4.34 | $4.96 | $3.72 | $4.34 | $6.82 | $6.20 | $3.72 | **$ 4.03** |
| **Hand Labor** | $1.97 | $1.56 | $1.33 | $0.89 | $0.81 | $0.51 | $0.51 | $0.46 | $1.54 | $0.75 | **$ 0.97** |
| **Diesel Fuel[1]** | $72.89 | $100.99 | $68.60 | $80.79 | $87.09 | $68.60 | $85.04 | $113.50 | $115.98 | $67.90 | **$ 83.68** |
| **Repairs & Maint.** | $19.63 | $14.19 | $12.87 | $10.64 | $10.13 | $9.26 | $11.82 | $11.92 | $14.62 | $9.26 | **$ 11.90** |
| **Interest on Op. Cap.** | $7.71 | $9.49 | $11.53 | $11.15 | $10.34 | $8.38 | $10.48 | $7.86 | $14.84 | $9.47 | **$ 9.80** |
| **Total Direct Expenses** | | | | | | | | | | | **$ 526.38** |

*[1]Price of diesel was assumed to be $3.10 per gallon.*
*[2]Weighted average calculations based on 536.5 total acres.*

## Consumers and Retailers Demanding "Local" Produce

*Ron Rainey, Associate Professor and Extension Economist, U of A Division of Agriculture, Agricultural Economics and Agribusiness Department*

Locally branded products are highly demanded by consumers in today's produce marketplace. Buyers are not only searching for locally produced products but also demonstrating a willingness to pay a premium in some instances. Historical direct marketing channels—farmers' markets, produce stands, community supported agriculture, etc.—have always relied on this product attribute to promote sales but retailers are increasingly targeting this niche market to expand their sales.

The demand for local and regional sources of food has been an emerging niche market for a number of years as is evidenced by the popularity of farmers' markets and such books as *The 100-Mile Diet, Slow Food Nation, Grub, In Defense of Food: An Eater's Manifesto, and The Omnivore's Dilemma.* Farmers markets have continued to grow in popularity over the past decade due largely to the food consumer's sense that the local farmer provides a tastier, healthier and more trusted source of food. More recently, shoppers are choosing locally grown produce over organic alternatives, according to the 16th annual Shopping for Health 2008 survey released by the Food Marketing Institute (FMI) and Prevention. Cary Silvers, Director of Consumer Insights for Rodale, noted at the recent Food Marketing Institute show that, "shoppers' new interest in locally grown food reflects their strong desire to purchase fresh fruits and vegetables,". During her comments at the show she also noted that there was an emerging battle between organic and locally grown food items. She felt that local was currently winning the battle because shoppers believed local growers deliver the freshest produce.

On the other end of the spectrum, large food retailers, continued to rely on the commodity food supply chain because of its capacity to move large blocks of food from farm to table with relatively greater efficiency. In recent years, however, circumstances such as fuel prices, growing consumer demand and the environmental challenges facing key food producing regions have converged to make local and regional procurement systems higher priorities for even the largest companies in the food supply chain. For example, Wal-Mart, Whole Foods, Safeway, General Mills, Publix, and Kroger's all have sustainability programs and initiatives.

These program strategies initially focused on tracking and reducing food miles by procuring more local and regionally grown products. Large retailer initial investments into buy local sustainability strategies resulted in savings in transportation and reduction in product spoilage. Retailers discovered that effective sustainability programs can have even greater impacts, enhancing profitability. The bulleted items below highlight the transition of retailer thinking from an environmental management impact to profit strategy focus. The data summarize the changes in sales figures on the retail level for a procurement firm on a single product examining 2007 versus 2008 sales data:

- an increase in monthly dollar sales of 21.54% when supplied Arkansas branded product.
- an increase on monthly units sold by 20.88% when supplied Arkansas branded product.
- A sell-through increase of over 3% over the previous year.
- Experienced a decrease in mark-down by almost 4% percent over the previous year.

The bottom line with this data was that the 2007product was not identified with the "Arkansas Grown" logo versus 2008, where the product was identified, labeled and promoted. As a result, this establishment saw impressive numbers across the spectrum that is important to retailers – higher sales, higher sell-through and lower mark-downs. The conclusion is that identifying the product as "locally grown" in this marketplace has helped in this case with this retailer. These impacts are in addition to the traditional "miles-to-market" estimates that focus on transportation and logistics savings. The resulting numbers point to the potential for "local" sourcing to be a profit strategy for firms.

Companies are actively searching for growers and effective models for small and mid sized farmers to enter into equitable business propositions that can meet large corporate expectations while allowing a fair and sustainable return to the smaller scale producer. As an example, Wal-Mart has launched programs such as Heritage Agriculture—use its buying power to incentivize the reintroduction of indigenous food crops into the food chain—and Agile Agriculture—local procurement. Other companies are also exploring more farmer friendly procurement structures.

## 2008 Horticulture Industry Examines Agricultural Risks

*Ron Rainey, Associate Professor and Extension Economist, U of A Division of Agriculture, Agricultural Economics and Agribusiness Department*

Arkansas will host the upcoming Horticulture Industry Show (HIS) on January 16-17, 2008 at the Holiday Inn City Center located in Fort Smith, Arkansas. This is the 28th annual conference and trade show for HIS, which is jointly sponsored by Arkansas and Oklahoma Horticulture Industries. The two-day event routinely attracts horticulture producers, university researchers, and extension specialists from Arkansas, Oklahoma, Missouri, Kansas, and Texas. The conference will address emerging trends and the changing landscape of agriculture. The conference includes general sessions, concurrent commodity sessions, research posters, and a trade show.

The theme for the 28th Show is **"Conserving the Future—Managing Risks."** Over 350 will be in attendance along with over 25 trade show exhibitors of equipment, supplies and services. Andy Goldring, Del Monte Fresh of Dallas and Michele Bond, Director of Customer Marketing, Tyson Foods are the featured keynote speakers scheduled to start at 9:00 A.M.each day. The featured speakers bring a wealth of industry experience and will share their perspectives on sustainability initiatives and marketing. Additional featured speakers include Marne Coit, Carroll Brown and Travis Johnson covering risk management topics such as liability and crop insurance.

Five horticultural commodity groups will offer educational sessions concurrently beginning at 11:00 A.M. on both days. Registration and Tradeshow/Exhibits opens at 8:00 A.M. Program topics will be valuable for existing producers, new producers, and service providers. You do not want to miss this year's HIS if you are currently involved in or considering production, value added and marketing of fruits, vegetables, herbs, Christmas trees, farmer's market/sustainable farming, and master gardener/public horticulture.

The complete program is available online at the following website: http://hort.uark.edu/docs/hisprogram.pdf. For additional information or to register, contact Ron Rainey 501-671-2175 or rrainey@uaex.edu.

## Upcoming Training Opportunities

Arkansas Farmers Market Association
Annual meeting and conference
February 6-7, 2009
Fayetteville, Towne Center

Food Safety Workshop
February 9, 2009, LR state office

Farm Labor Workshop
February 16, 2009, LR state office

For more information regarding these events please contact Ron Rainey at rrainey@uaex.edu or 501-671-2175.

We hope you find our newsletter useful. If you have any comments or questions regarding these articles, or would like to make suggestions for future articles, contact the editor.

**Ronald Rainey, Associate Professor**
Agricultural Economics and Agribusiness
U of A Division of Agriculture
rrainey@uaex.edu
501-671-2175