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Modest Gains for Cash Rental Rates

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Average cash rental rates in Iowa have increased modestly over last year, according to results from an annual survey by Iowa State University. Forty percent of Iowa's cropland is rented under cash rent lease agreements. Profits and losses are highly variable from year to year, and expectations of future returns ultimately are bid back into land rents as well as land selling prices.

A year ago both landowners and tenants were anticipating a surge in cash rents resulting from larger government payments under the 2003 farm bill. However, yields and prices have probably had more impact on rental rates for this year than the new USDA program.

Handbook Updates

For those of you subscribing to the *Ag Decision Maker Handbook*, the following updates are included.

Corn and Soybean County Yields — File A1-14 (4 pages)

2003 Farmland Cash Rental Rates — File C2-10 (13 pages)

Please add these files to your handbook and remove the out-of-date material.

Survey Results

The ISU survey of cash rental rates for 2003 showed increases in typical cash rents for all regions of the state. The largest increases were in east central and southeast Iowa. The estimated average rental rate for the entire state was $128 per acre, compared to $124 last year. Most, counties showed modest increases in typical rents, especially for lower quality land.

A total of 1,121 farm tenants, land owners, real estate agents, farm managers, and lenders responded to this year's survey, by giving their best estimates of typical cash rental rates in their county. Cropland in each county was divided into high, medium and low quality thirds based on expected corn yields. Data also were collected for oats, hay and pasture land rents. They showed little change from past years.

It is difficult to tell how much impact the new farm bill had on cash rents for 2003. Expectations of higher USDA payment levels have largely evaporated, as grain prices have remained above loan rates most of the year. It appears that farmers will not collect loan dificiency payments or counter cyclical payments for the 2002 crops.

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That leaves only the direct payments to supplement income from the marketplace. On the positive side, new records were set for state average yields in 2002, and many farms harvested their best crops ever. While prices are not at high levels, they have risen enough to offset the loss of loan deficiency payments in most counties. Moreover, strong competition for rented land has kept rates at historically high levels in many communities.

Rents Vary by Productivity

Average rents per bushel of expected corn yield were calculated using county average yields since 1993. These rates ranged from about $.87 per bushel in south central Iowa to over $1.00 per bushel in east central Iowa. Stronger grain prices near the Mississippi River and the large number of acres devoted to seed production tended to support rental rates in some areas.

The full summary of the survey is contained in the accompanying *Decision File* **2003 Farmland Cash Rental Rates,** File C2-10.

Negotiating Individual Terms

Not all lease agreements will follow the trends. There are two basic approaches to negotiating rental rates. Some tenants and owners attempt to adjust the rent yearly, to reflect near-term economic prospects or results. Other leases, especially long-term agreements between the same parties, are adjusted infrequently on the assumption that high and low profit years will even out over time.

Individual lease agreements will vary considerably from average rates. Particular farms may include areas that have poor drainage or are highly eroded, or that are low in fertility. Other farms may have small or irregular fields, or terraces to work around. The size of the USDA corn base and program yield associated with a particular farm affects the value of the direct and counter cyclical payments received. All of these factors influence the level of rent tenants are willing and able to pay.

Local grain market conditions, the availability of seed or specialty grain contracts, and the number of rental acres available also cause rental rates to be higher or lower in certain communities. The information shown in this survey can be used to benchmark rates among counties, and to indicate trends, but should not substitute for careful consideration of expected costs and returns as a basis for negotiating terms for a specific parcel of land.

Country of Origin Labeling *

by Roger A. McEowen, Associate Professor of Agricultural Economics and Extension Specialist, Agricultural Law and Policy, Kansas State University.

The Country of Origin Labeling (COOL) provisions in the 2002 Farm Bill require, beginning September 30, 2004, that *retail* sellers of certain food commodities inform consumers of a product’s country of origin. As required by the statute, the USDA promulgated guidelines in the fall of 2002 designed to assist retailers and their suppliers in facilitating voluntary labeling. By September 30, 2004, however, the USDA is to have in place regulations implementing mandatory COOL. COOL raises important questions concerning what commodities are covered, how the labeling requirement is satisfied, and anticipated costs and benefits.

“Covered Commodities”

“Covered commodities” are defined by the statute as beef, pork and lamb in the form of whole muscle cuts and ground meat, fish (farm-raised or wild), peanuts, fruits and vegetables. Covered commodities must be exclusively produced and processed within the United States to be deemed of U.S. origin. Retailers of these statutorily defined commodities must inform consumers as to country of origin. Farmers, ranchers, growers and fisherman are not specified as a “covered entity” by the text of the statutory language and, as a result, are not within the purview of the statute, because they do not prepare, store, handle or distribute relevant covered commodities (at least as to meats).

Satisfying the Statutory Requirement

The COOL legislation regulates private-actor conduct through an information requirement and a verification requirement. The information

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