

A green combine harvester is shown in the middle of a golden field, likely harvesting grain. The sky is overcast with grey clouds. In the background, there are trees and a white church steeple.

# **The “2007” Farm Bill – What Will Determine Its Makeup?**

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**National Barley Growers Association**

**Washington DC**

**February 26-27, 2006**

# **The Major Forces That Will Influence the Makeup of the “2007” Farm Bill**

- **The “Budget”**
- **The “Trade Talks”**
- **“Politics”**

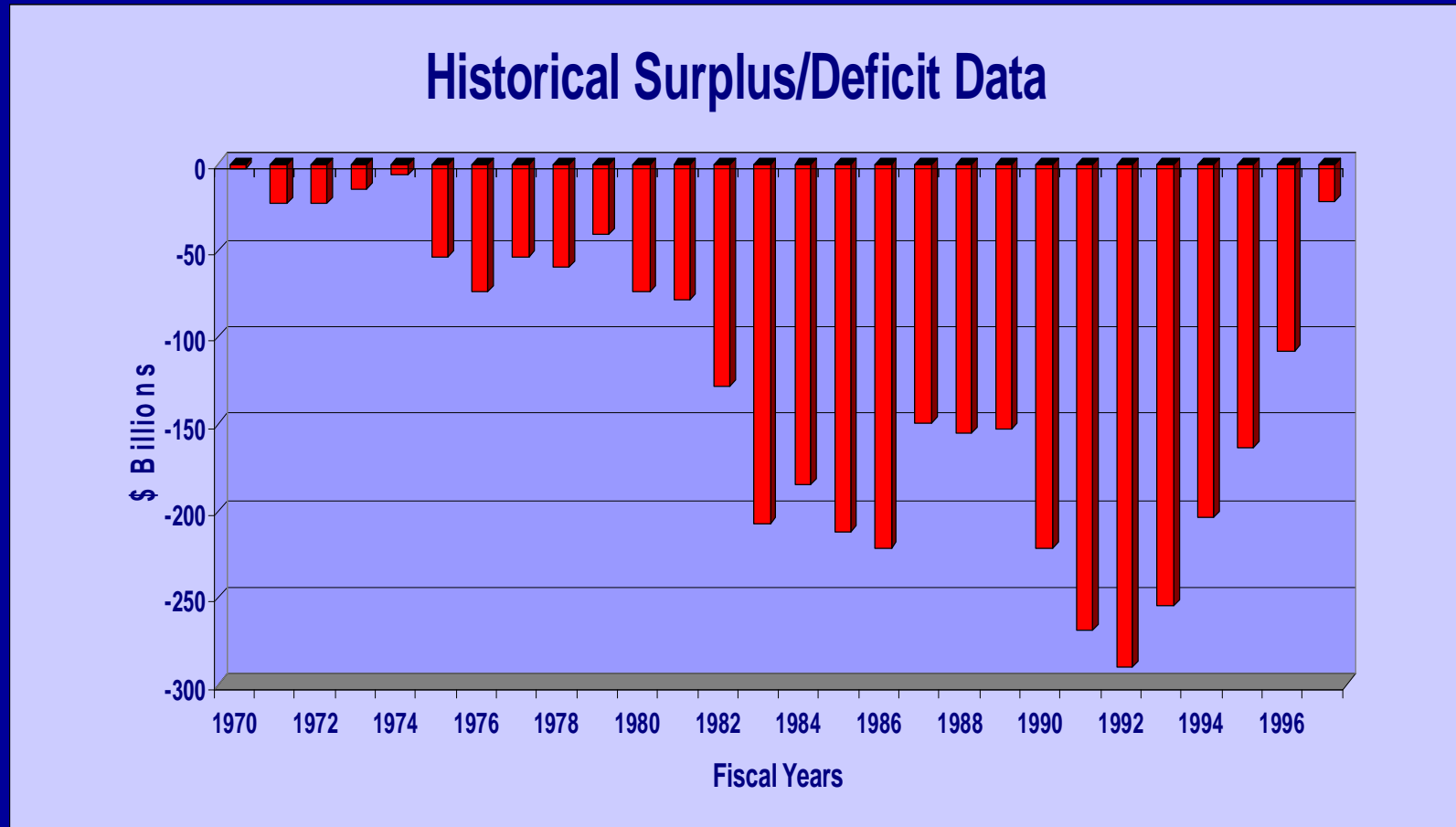
# The “Budget”

- **In Washington...**

**all things boil down to money...**

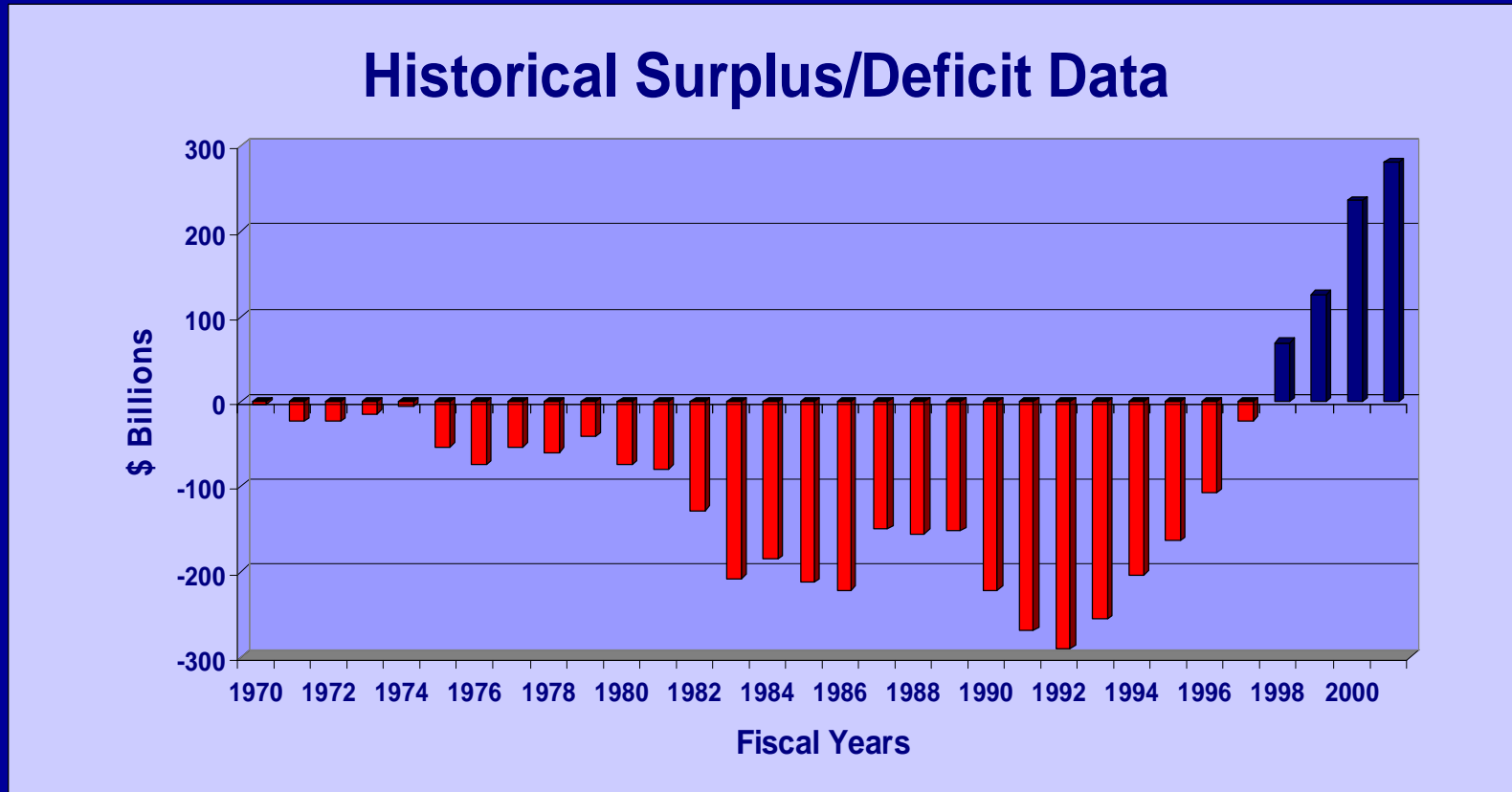
**...or the lack of it.**

# Deficits Affect Ag Spending



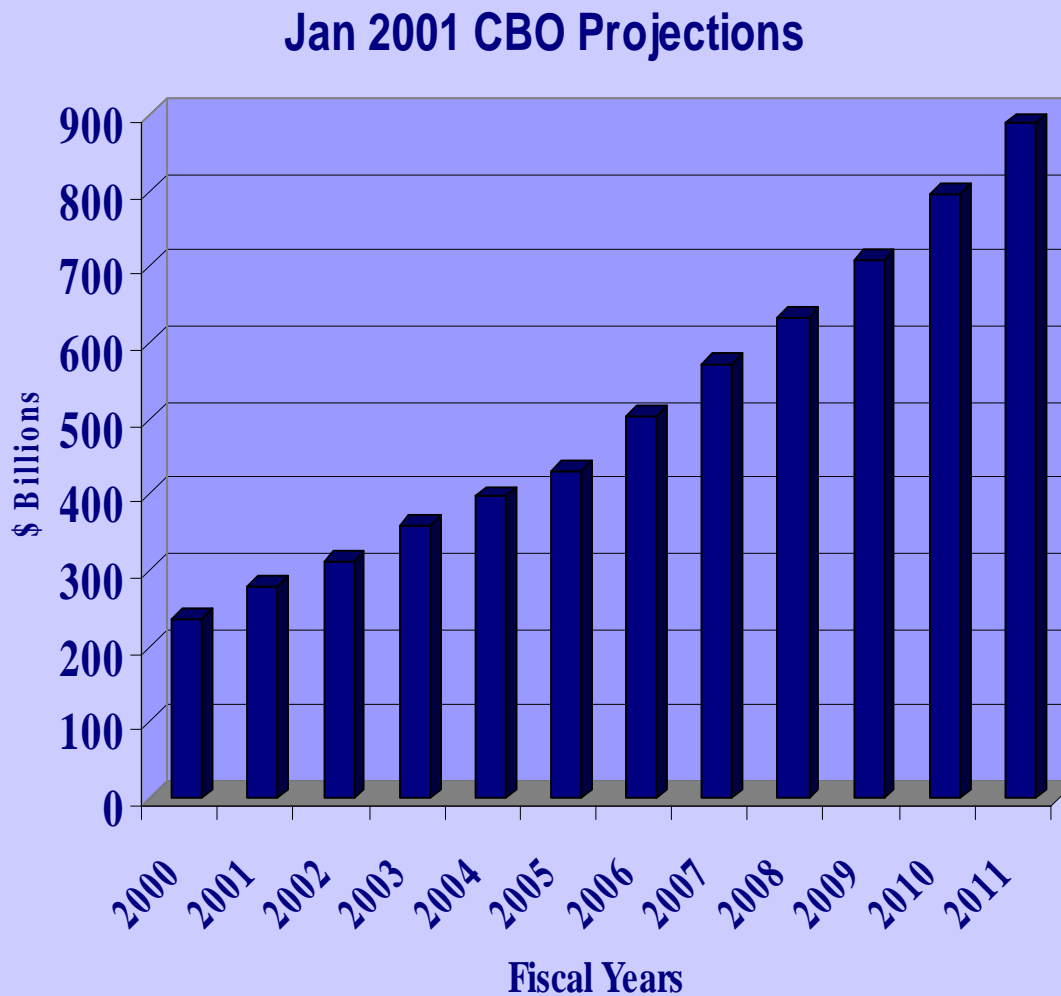
- **Budget deficits from 1981 – 1998 led to cuts in the Ag Budget through deficit reduction legislation.**

# Surpluses Affect Ag Spending as Well



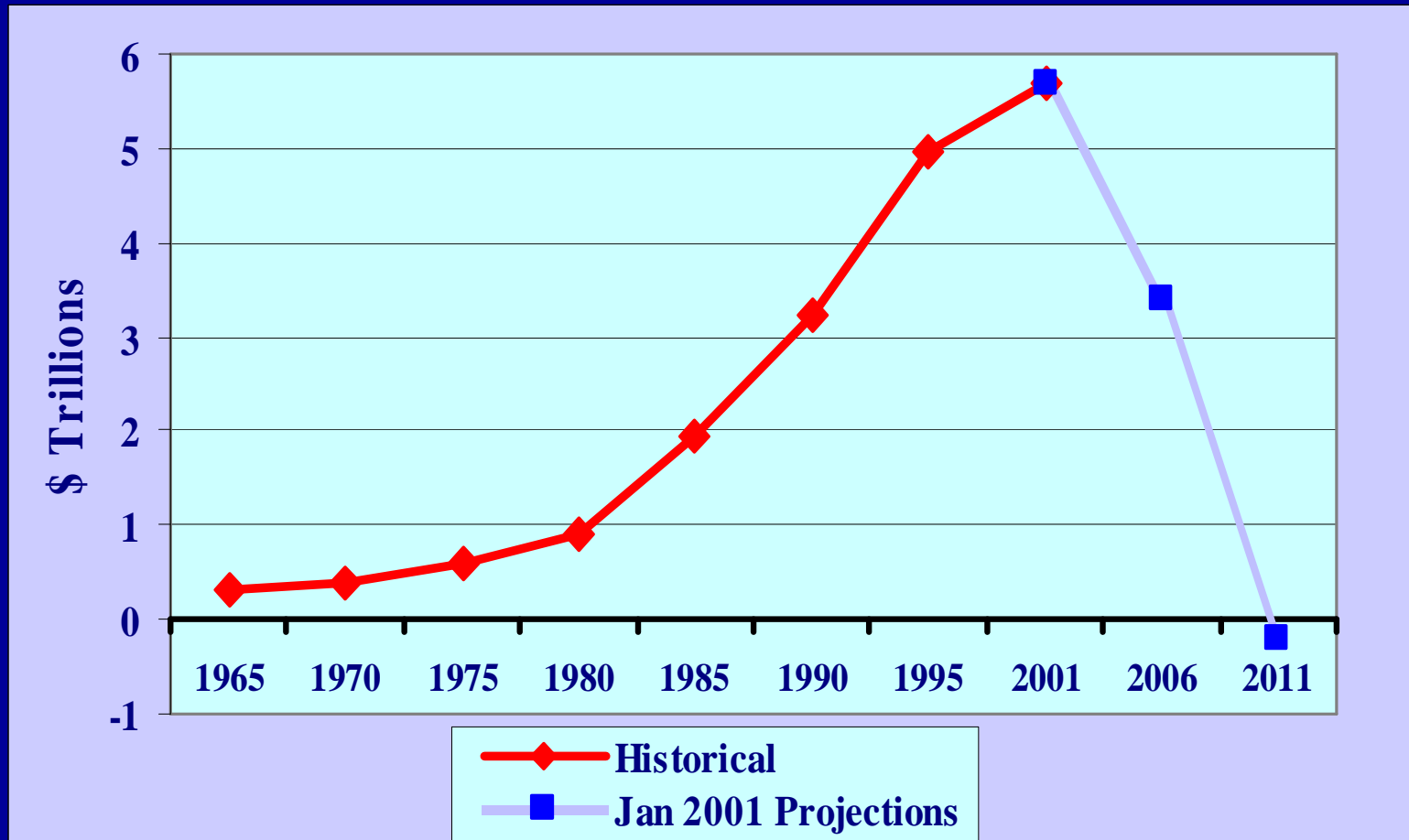
- **Budget surpluses from 1998 – 2001 allowed Congress to provide emergency market loss & crop loss assistance & the enactment of the Ag Risk Protection Act (ARPA).**

*“We’re In the Money...The Sky is Sunny...  
So Let’s Lend it... Spend it... Send it Rolling Along!”*



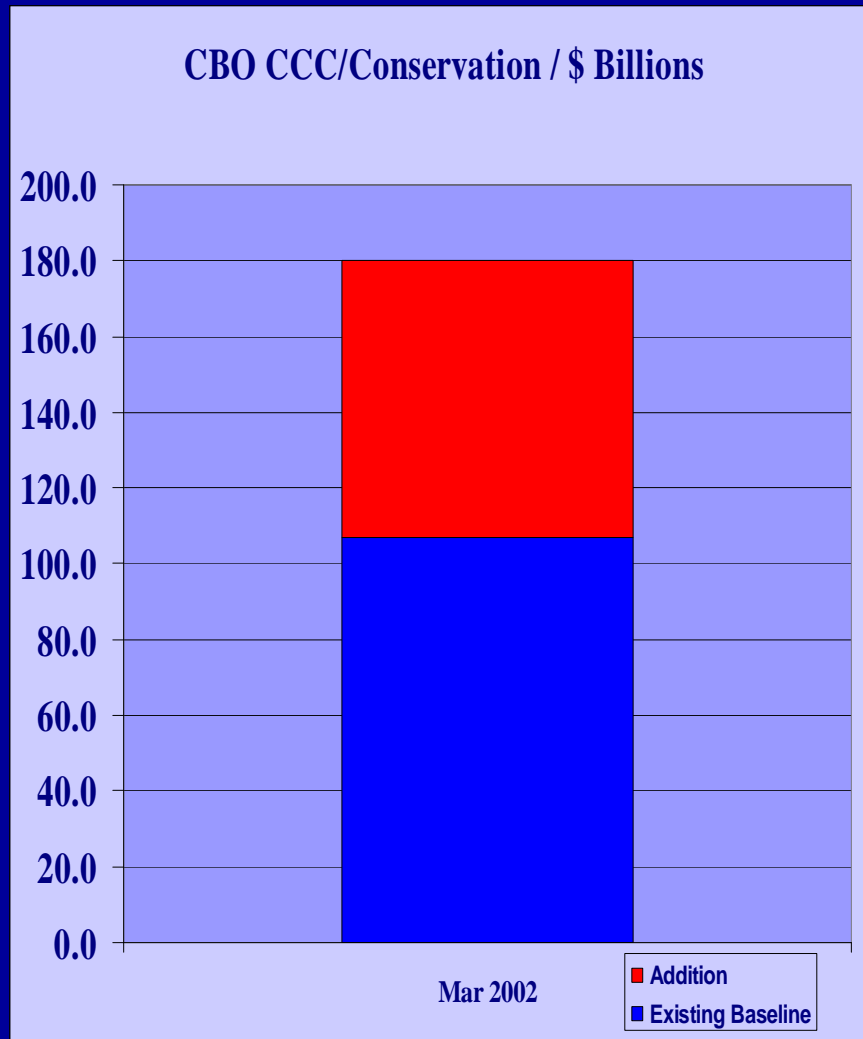
- **In January 2001, the CBO projected a 10-year federal surplus of \$5.6 trillion...**

# Projected National Debt / Jan 2001



- Fed Chairman Alan Greenspan was “concerned” that without “adjustments...” the National Debt could be retired...

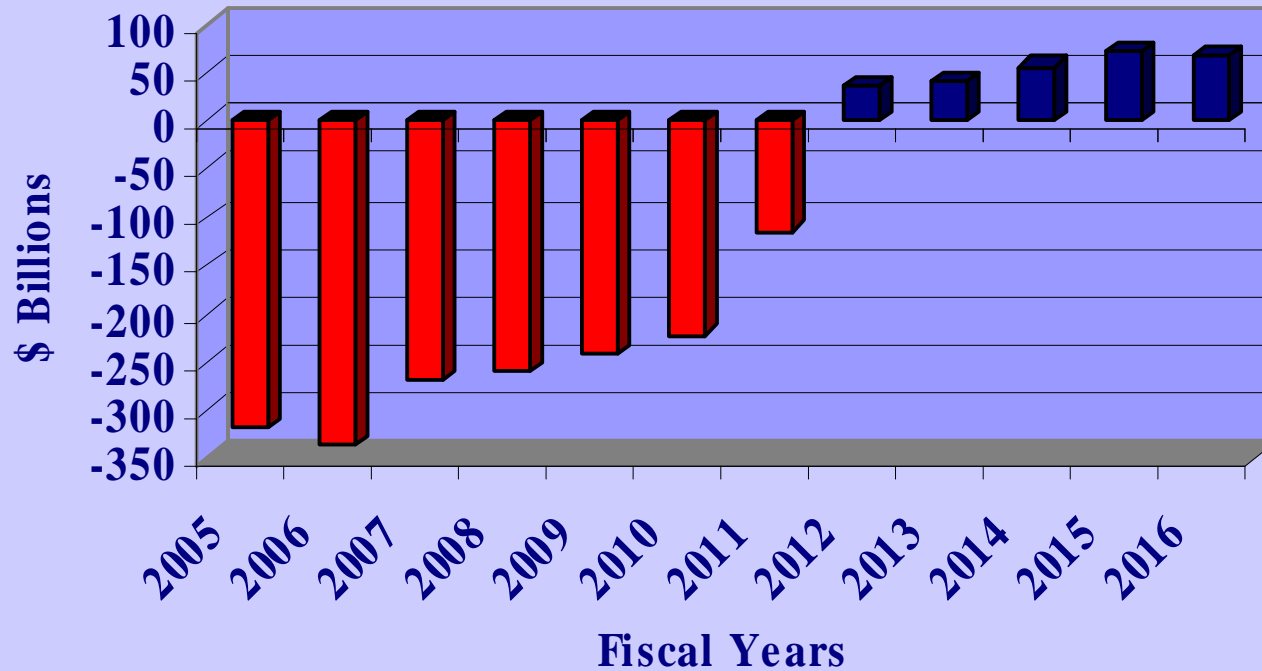
# 2002 Farm Bill Funding



- **The \$5.6 trillion projected surplus allowed Congress to also provide for an additional \$73 billion in baseline funding for the 2002 farm bill... the 1st “increase” in baseline farm bill spending in years...**

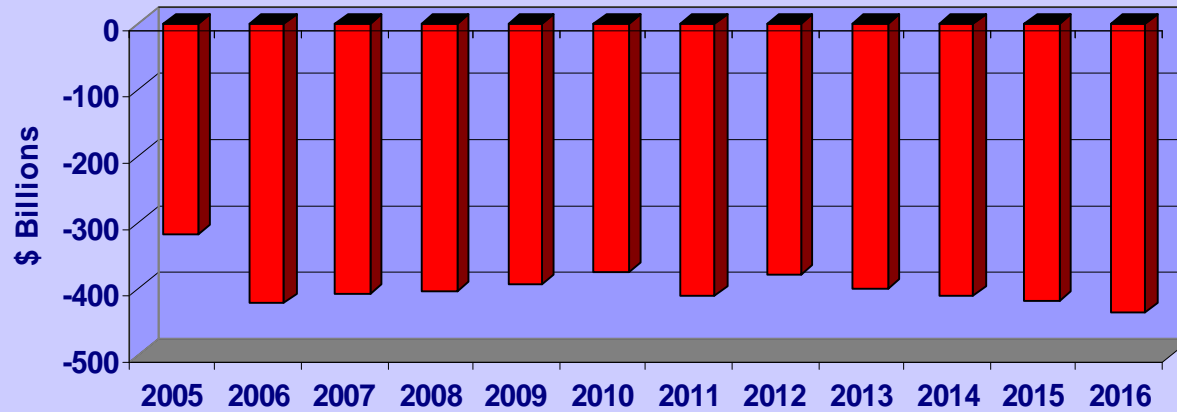
# By 2006... Stormy Skies Return...

January 2006 CBO Projections / Current Law



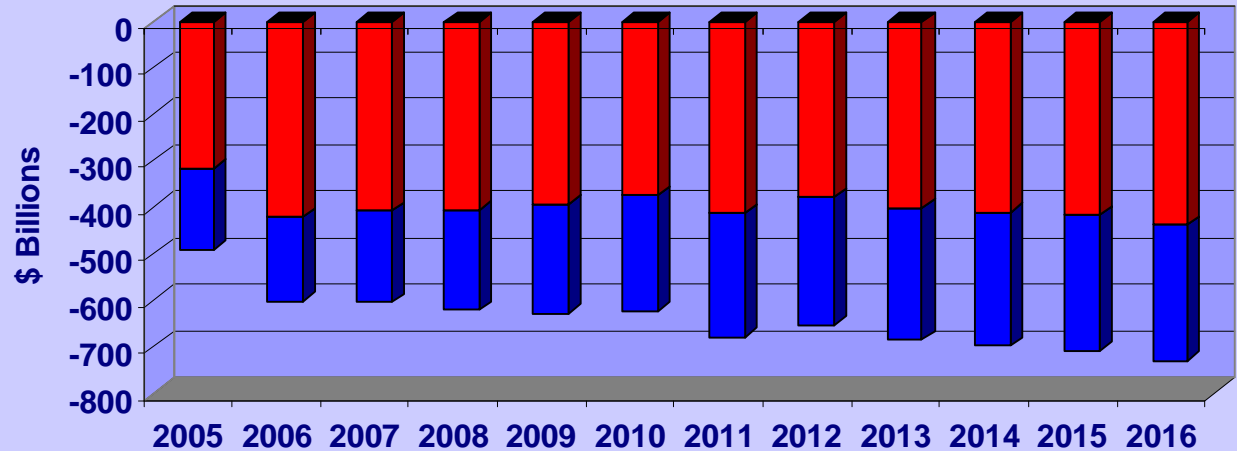
# Deficit With Potential Additional Costs Added to Current Baseline

Jan 2006 CBO Projected Deficits  
With Tax Cut Extensions / War Costs



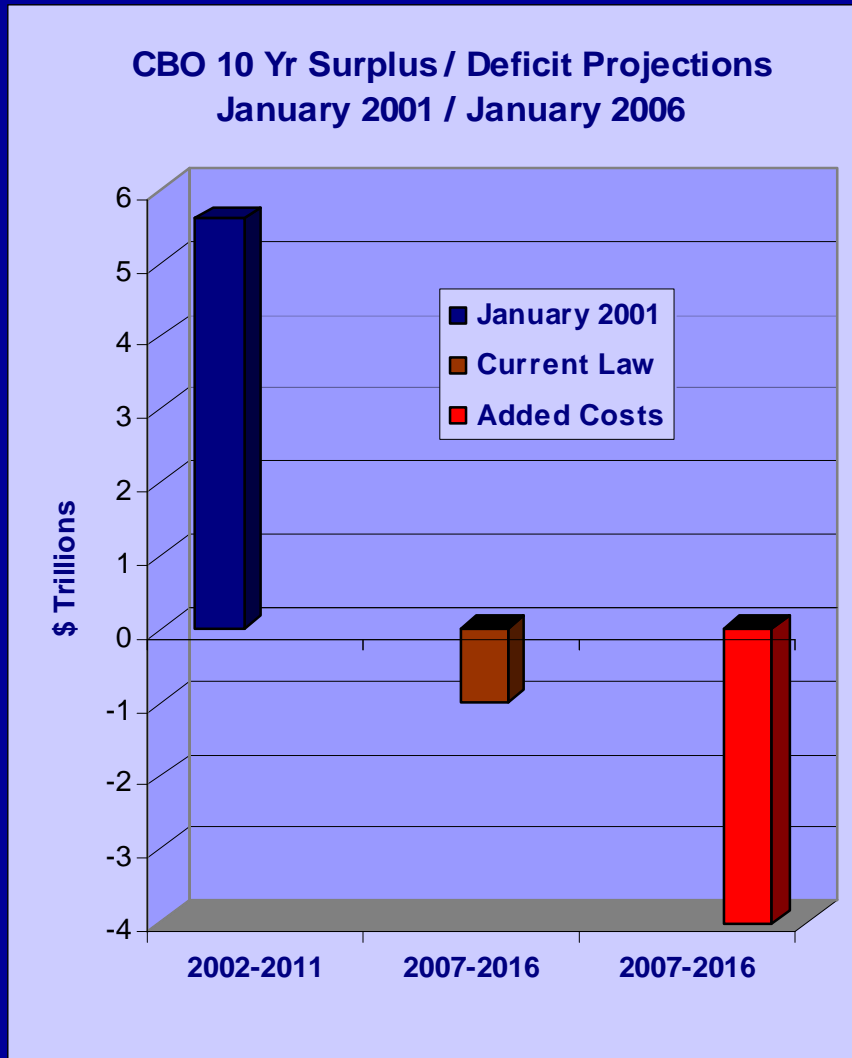
**With  
Social Security  
Surplus added**

Jan 2006 CBO Projected Deficits  
With Tax Cut Extensions / War Costs / Soc Sec Surplus (Blue)



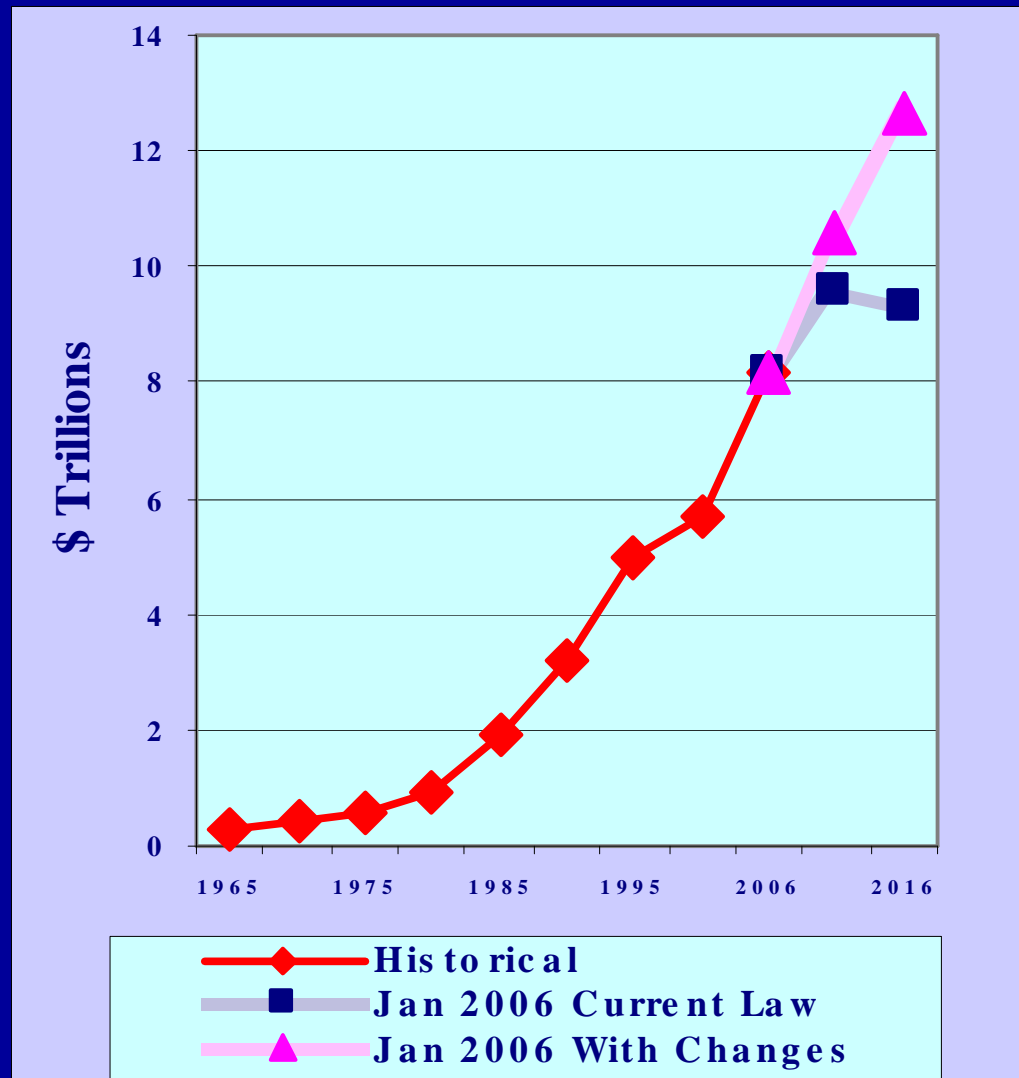
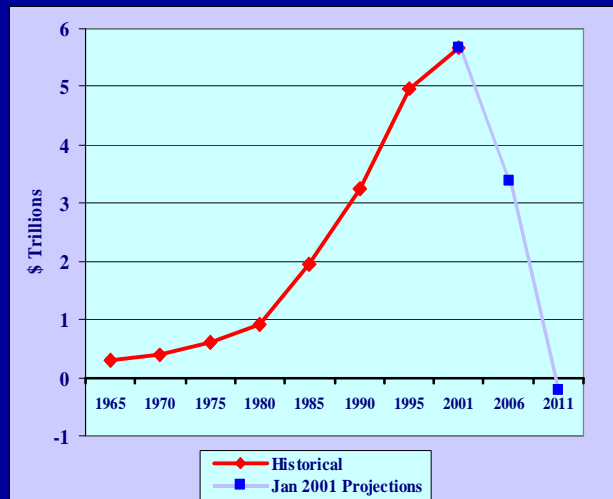
# 5 Years Later, the Party is Over.

## *“Brother, Can You Spare a Billion?”*

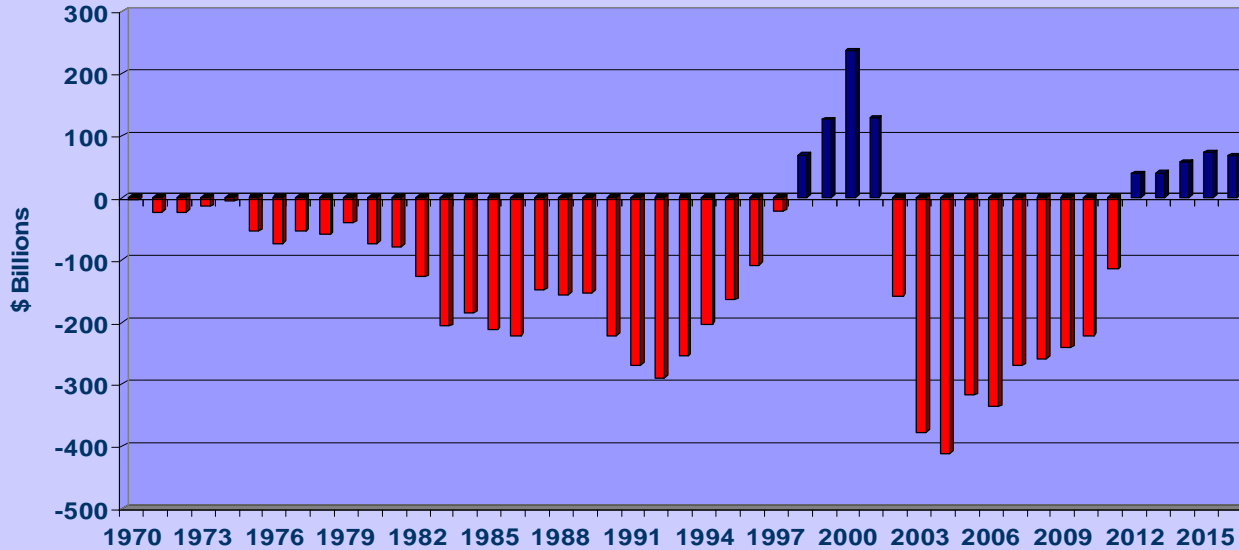


- **The \$5.6 trillion surplus projected in January 2001 has vanished.**
- **Instead, \$2.5 Trillion has been added to the National Debt over the last 5 years...**
- **...and an additional \$1.2 - \$4.4 trillion deficit is now projected in the next 10 yrs...**
- **...a \$9.3 to \$12.5 trillion change in fortune...**

# Unlike 2001, the next Farm Bill will be debated as the National Debt increases dramatically.



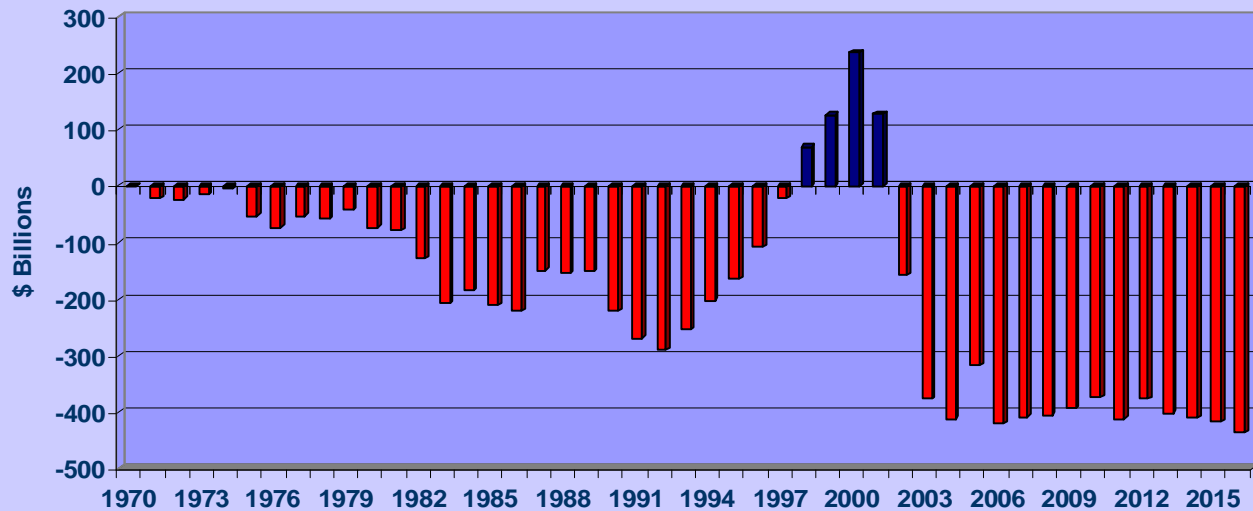
Deficit / Surplus -- Historical / Projected, Current Law



...Current Law

With  
Possible  
Changes...

Deficit / Surplus -- Historical / Projected, With Possible Changes



# An Administration Farm Policy Paper?

- A better understanding of how the Administration is positioning itself prior to the coming Farm Bill debate can be gained by examining current policy papers emerging from the White House. The “Economic Report of the President” that was sent to Congress on February 13th contained a chapter on Agriculture... some excerpts follow...



Transmitted to the Congress February 2006

Together with the Annual Report  
of the Council of Economic Advisers

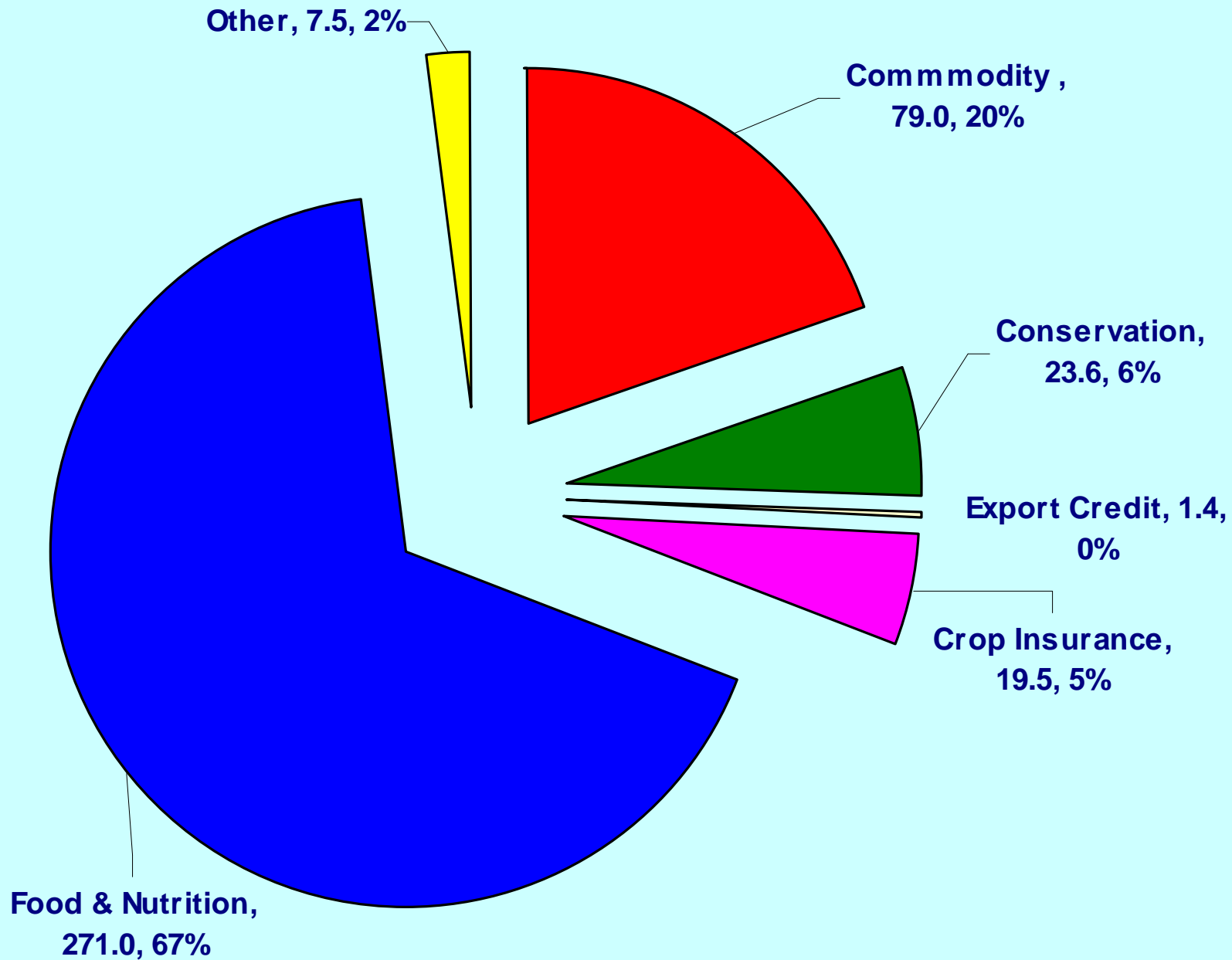
- **Most farmers do not benefit from commodity subsidies.**
- **Support to agriculture can be provided in many forms that are potentially less market-distorting than existing commodity subsidies.**
- **The average farm payment recipient is no longer poor...fifty years ago, average household income for the farm population was approximately half that of the general population... in 2004, farm households earned about 35 percent more...**

- **Most farms in the United States are still small farms or “rural residence farms,” but they produce only a small share of total agricultural output and receive only a small share of direct agricultural subsidy payments.**
- **Most production and government payments are now associated with intermediate and commercial farms, particularly the latter, which account for a relatively small percentage of the total number of U.S. farms but receive over half of direct payments.**

- **By 2000, 93 percent of farm households earned off-farm income, including off-farm wages, salaries, business income, investments, and Social Security**
- **Total payments to farmers from the Federal government were approximately \$20 billion in 2005 and are projected to be approximately \$21 billion in 2006. This constitutes about 6 percent of the \$319 billion U.S. Federal budget deficit for 2005.**

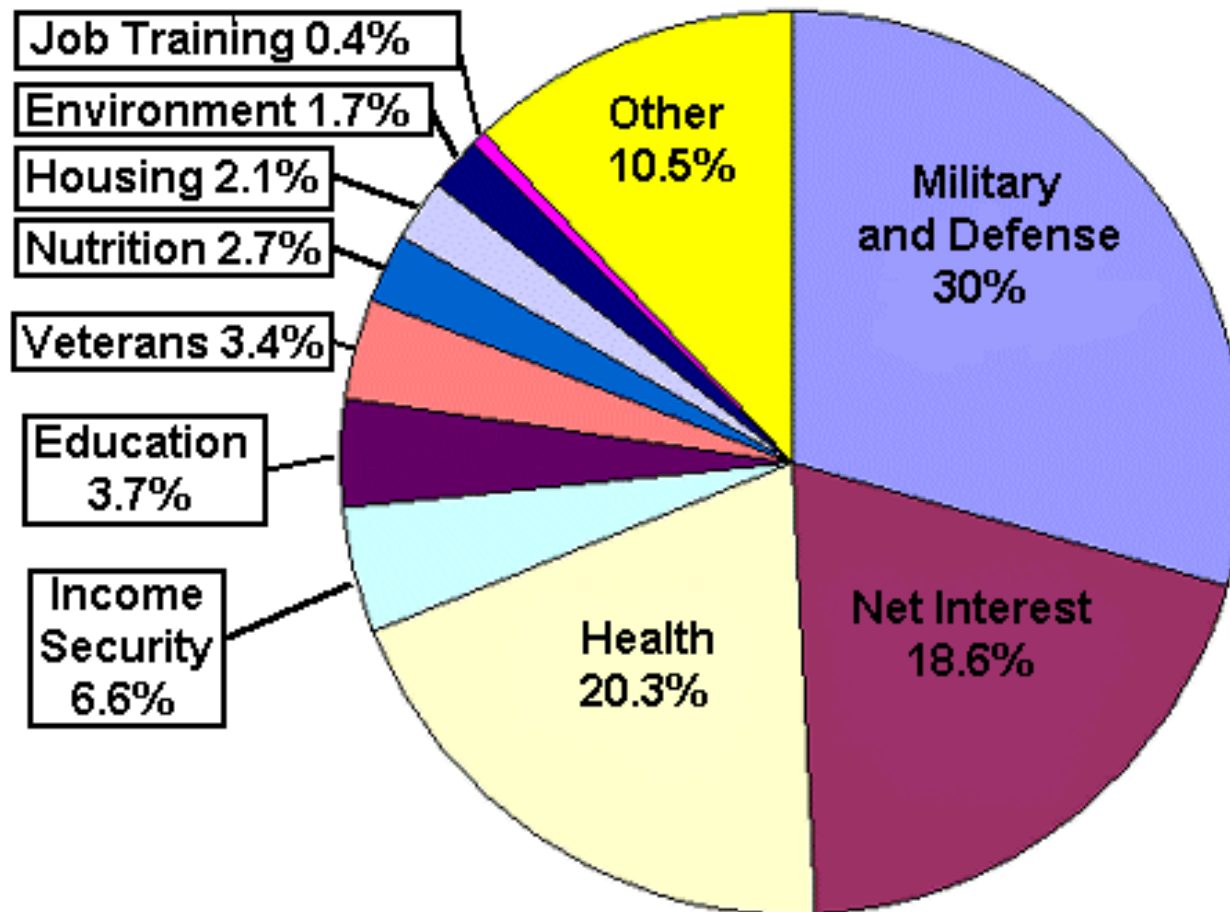
- **These subsidy payments can cause market distortions by stimulating more production than would occur without the subsidies.**
- **In general, U.S. commodity support programs promote overproduction of commodities in the United States and hurt countries that could benefit from exporting these commodities to the United States.**

# Share of FY2006-2010 Spending (\$402 billion total)



# How were the \$ spent in 2004?

*From The Budget of the United States Government*



# The “Trade Talks”

- Amber box, Green box, and Blue...

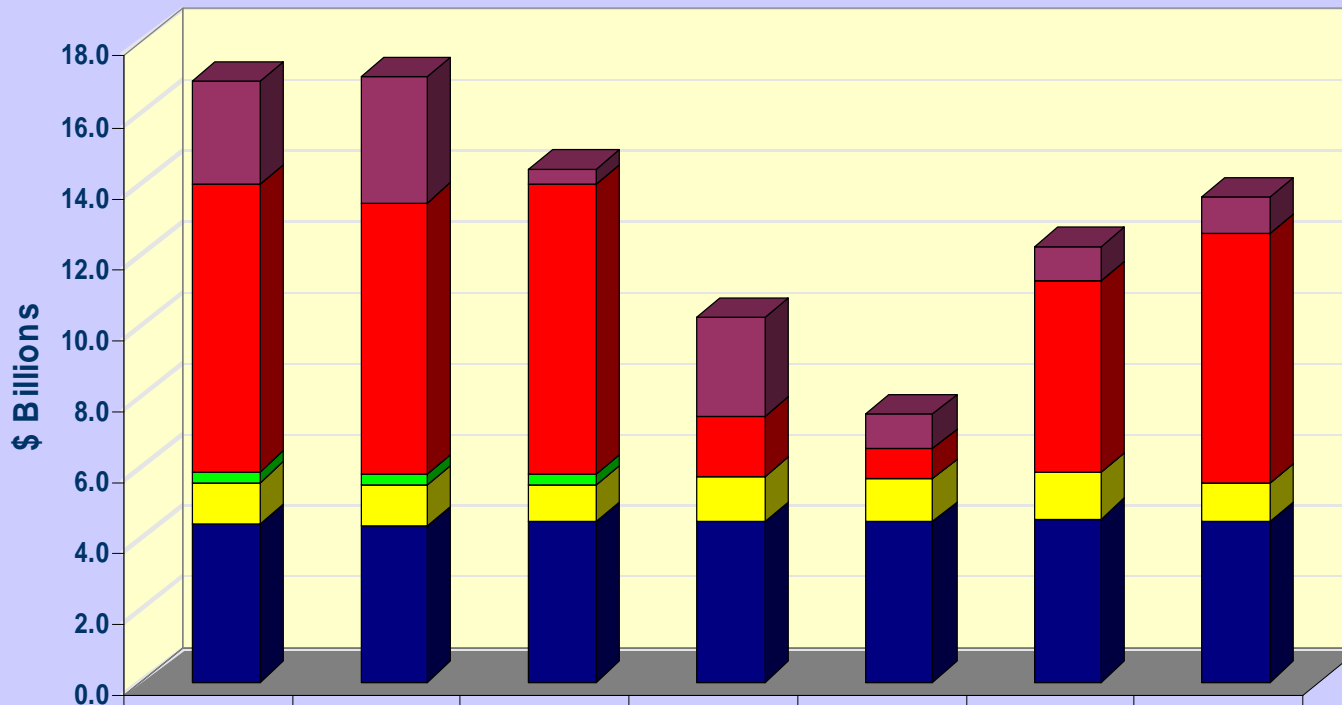
...is it time to move some cheese?

(assuming there will be some to move)

# Limits on Support – World Trade Organization

- **Amber Box – \$19.1 Billion**
  - » US proposed 60% cut to \$7.6 Billion (during a 5-7 year implementation period)
  - **Marketing Loans, Dairy and Sugar price supports**
  - **Direct Payments would move from Green to Amber due to Brazil cotton case ruling regarding Fruit & Vegetable restrictions unless Congress removes restrictions**
- **Green Box – No Limit**
  - **Direct Payments (subject to WTO case), Conservation Payments**
  - **Could include a revenue assurance (NOT insurance) payment if it did not exceed 70% of historical levels**

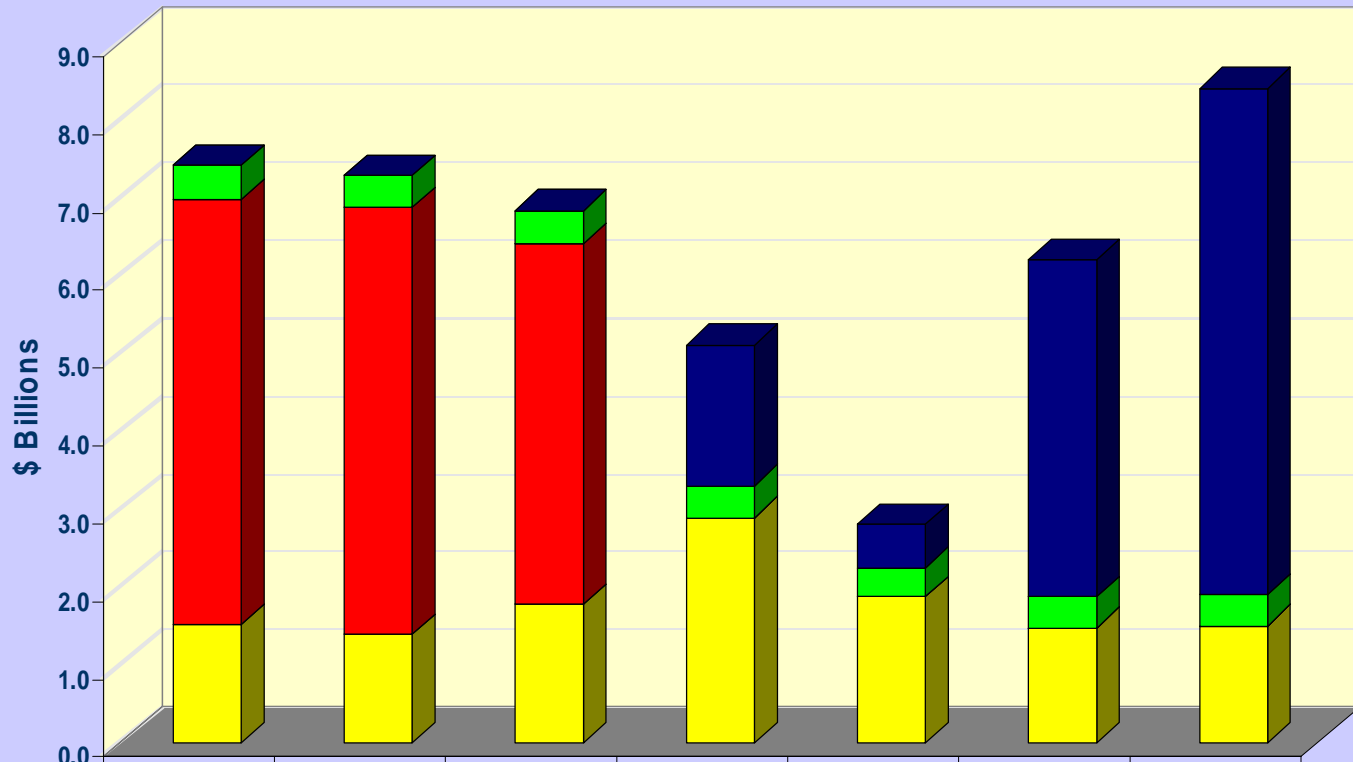
# US Amber Box Spending - \*Forecast



	1999	2000	2001	2002*	2003*	3004*	2005*
Other	2.9	3.5	0.4	2.8	1.0	1.0	1.0
M Loans	8.1	7.6	8.2	1.7	0.9	5.4	7.0
Peanuts	0.3	0.3	0.3	0.0	0.0	0.0	0.0
Sugar	1.2	1.1	1.0	1.2	1.2	1.3	1.1
Dairy	4.4	4.4	4.5	4.5	4.5	4.6	4.5

- **Blue Box -- \$10 Billion**
  - » (US proposed cap of \$5 billion, or 2.5% of total annual Gross Agriculture Revenue of \$200 billion)
  - **US currently does not use... wants Countercyclical Payments placed here (EU uses it for payments under set-aside programs)**
- **“De Minimis” – \$10 Billion (5% of total annual Gross Agricultural Revenue of \$200 billion) for each of these categories:**
  - » (US proposed 50% cut to 2.5% or \$5 billion)
  - **Non- product specific (crop insurance, currently holds counter cyclical program)**
  - **Product specific (nothing really here... used if direct support is less than the 5% (or proposed 2.5%) of a crop’s total annual value...**

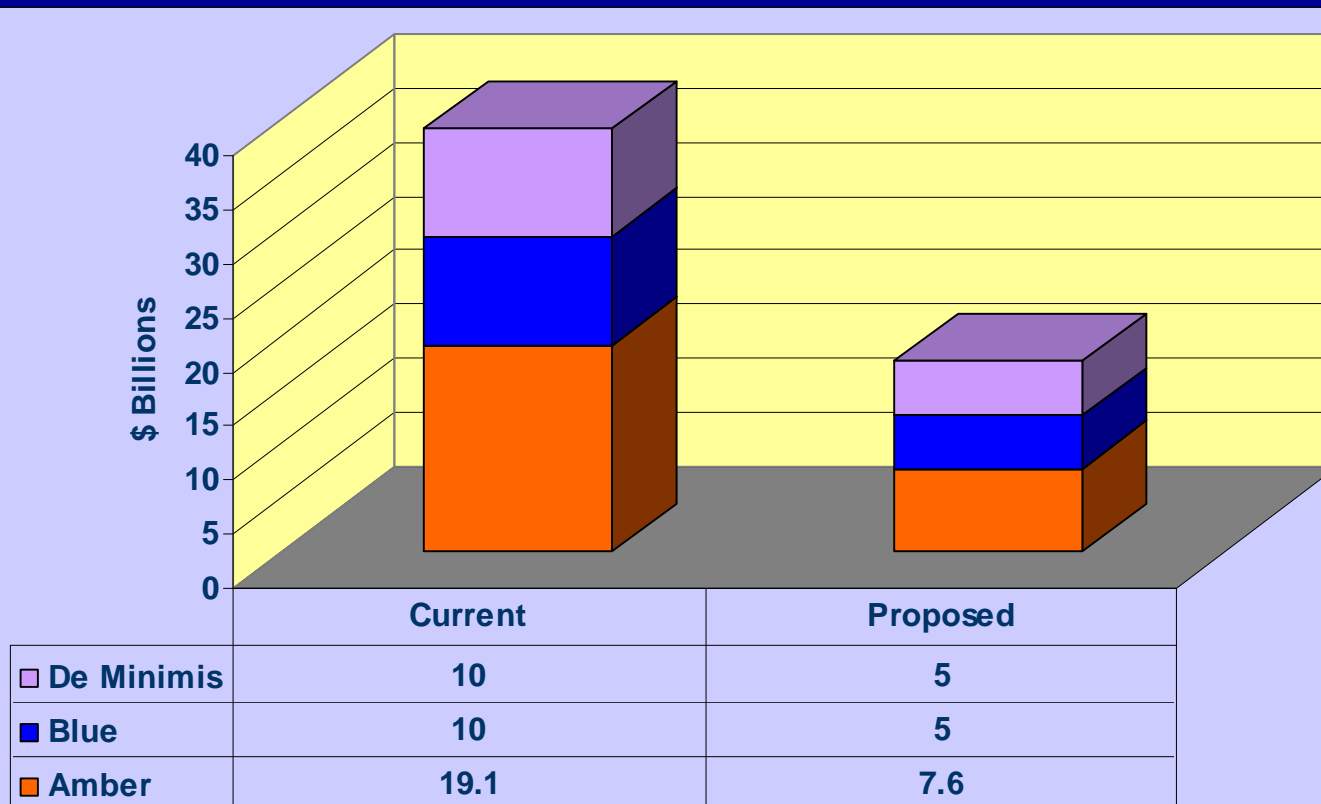
# US Non-Product Specific “De Minimis” Spending



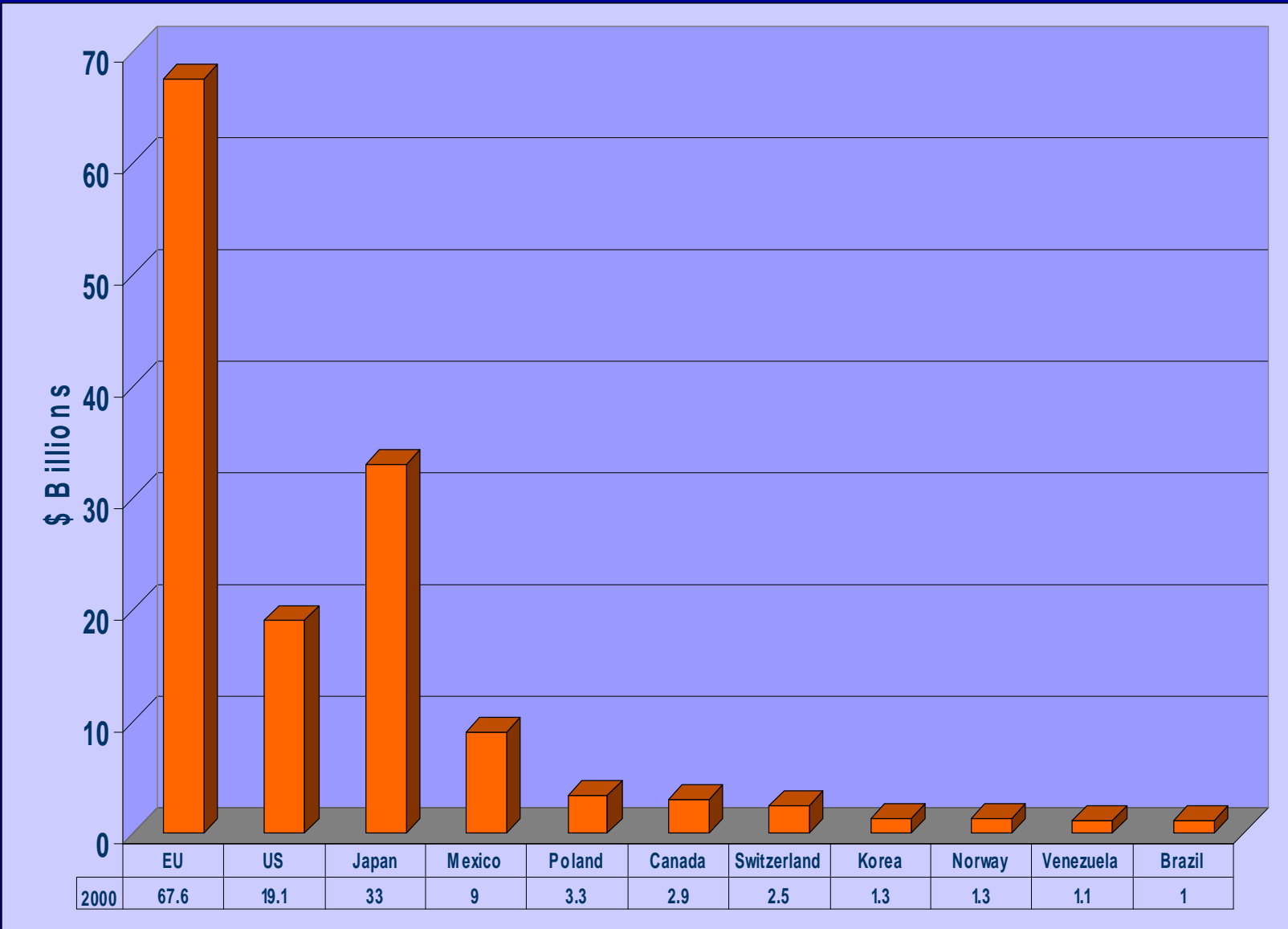
	1999	2000	2001	2002*	2003*	2004*	2005*
■ CC Pymnts	0.0	0.0	0.0	1.8	0.5	4.3	6.5
■ Other	0.4	0.4	0.4	0.4	0.4	0.4	0.4
■ Market Loss	5.5	5.5	4.6	0.0	0.0	0.0	0.0
■ Net Crop Ins Indem.	1.5	1.4	1.8	2.9	1.9	1.5	1.5

# Current & Proposed Support Limits

- **Current Total Limits - \$49.1 Billion (includes \$10 billion product specific not used)**
- **Proposed Total Limits – \$22.6 billion (includes \$5 billion on product specific)**
- **Overall proposed cut – 54%**



# Current Amber Box Limit Comparison



# The Green Box

- **Direct Payment problem needs to be fixed!**
  - **Fruit & Vegie Planting Restriction must be removed...**
  - **Would cost money...**
    - **Fruit & Vegetables get support (If they could agree) – from traditional farm program funding pot.**
- **Revenue Assurance Program being explored by farm groups... the means to move the cheese from the Amber Box?**

# Schedule for the Talks...

- *By the end of 2006* – Completion of Negotiations
- *2007* – Ratification by WTO Membership
- Trade Promotion Authority Expires July 1, 2007

# “Politics”

- **The Partisan Kind...**
- **Rivalry between Titles, i.e. Commodities, Conservation, Nutrition, etc.**
- **Rivalry between Crop Groups**

# The Partisan Kind...

**Make-up of Congress (& Ag Committee) has changed...**

## **House:**

- **Combest (TX) / Stenholm (TX) replaced  
by Goodlatte (VA) / Peterson (MN)**

## **Senate:**

- **Daschle (SD)**
- **Chambliss (GA) now Chairman / Harkin (IA) is Ranking**

**Makeup of Congress will likely change some more...**

# Rivalry Between Titles

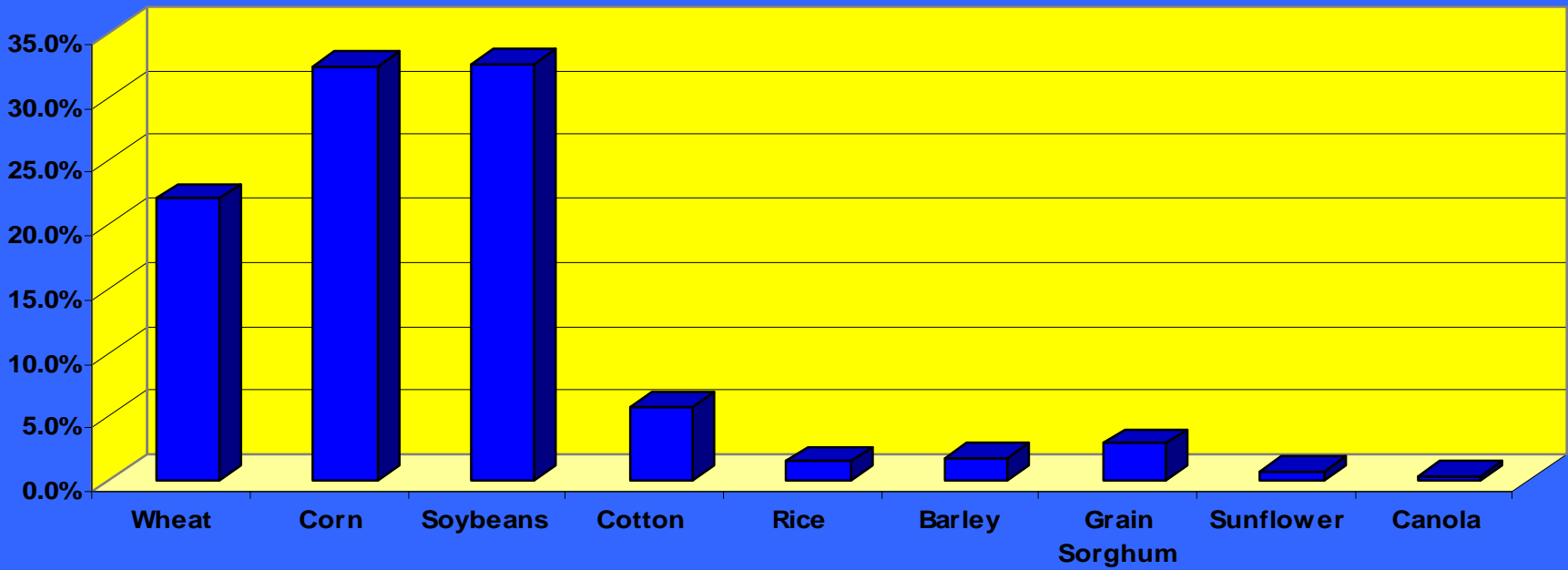
- **Conservation has been Repeatedly Cut**
  - **Authorization was extended so it could be cut some more...**
- **Nutrition Authorization was extended... but funding was not cut.**
- **Commodity Title was not extended... and was not cut (except for moving payments to the out years, i.e. advanced payments trimmed.)**

# Rivalry Between Crop Groups

- **Where's the money going?**

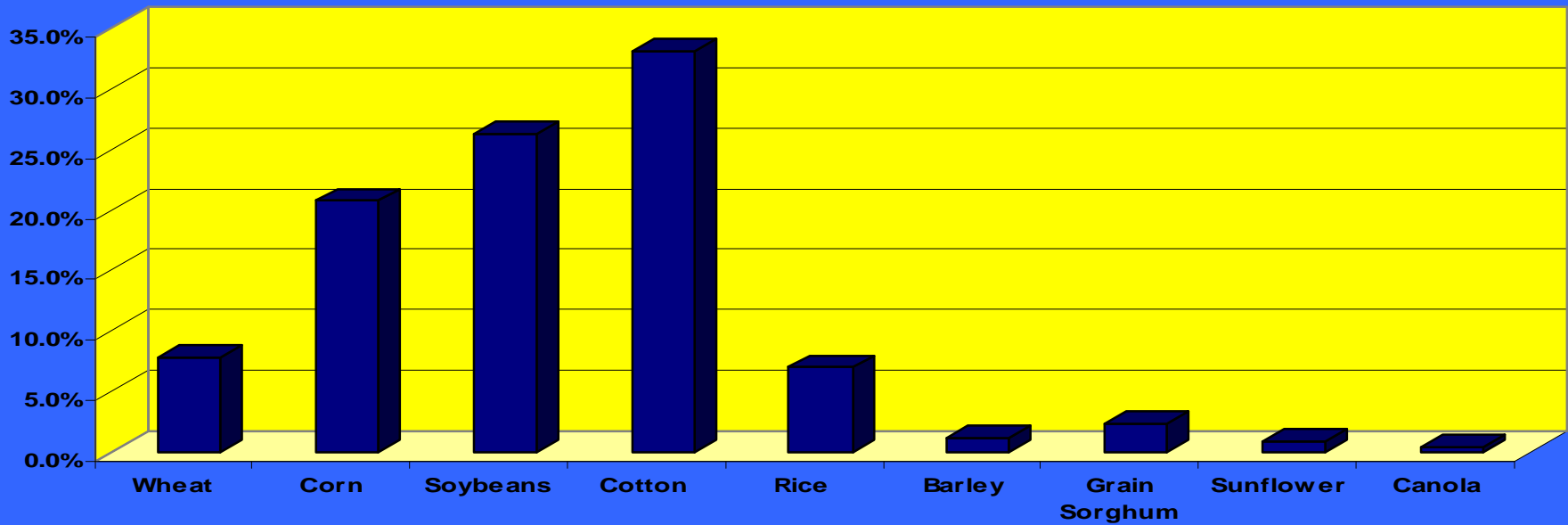
2004 Harvested Acres

■ % of Total Acres



% of LDP (Based on LDP Decline Scenario)

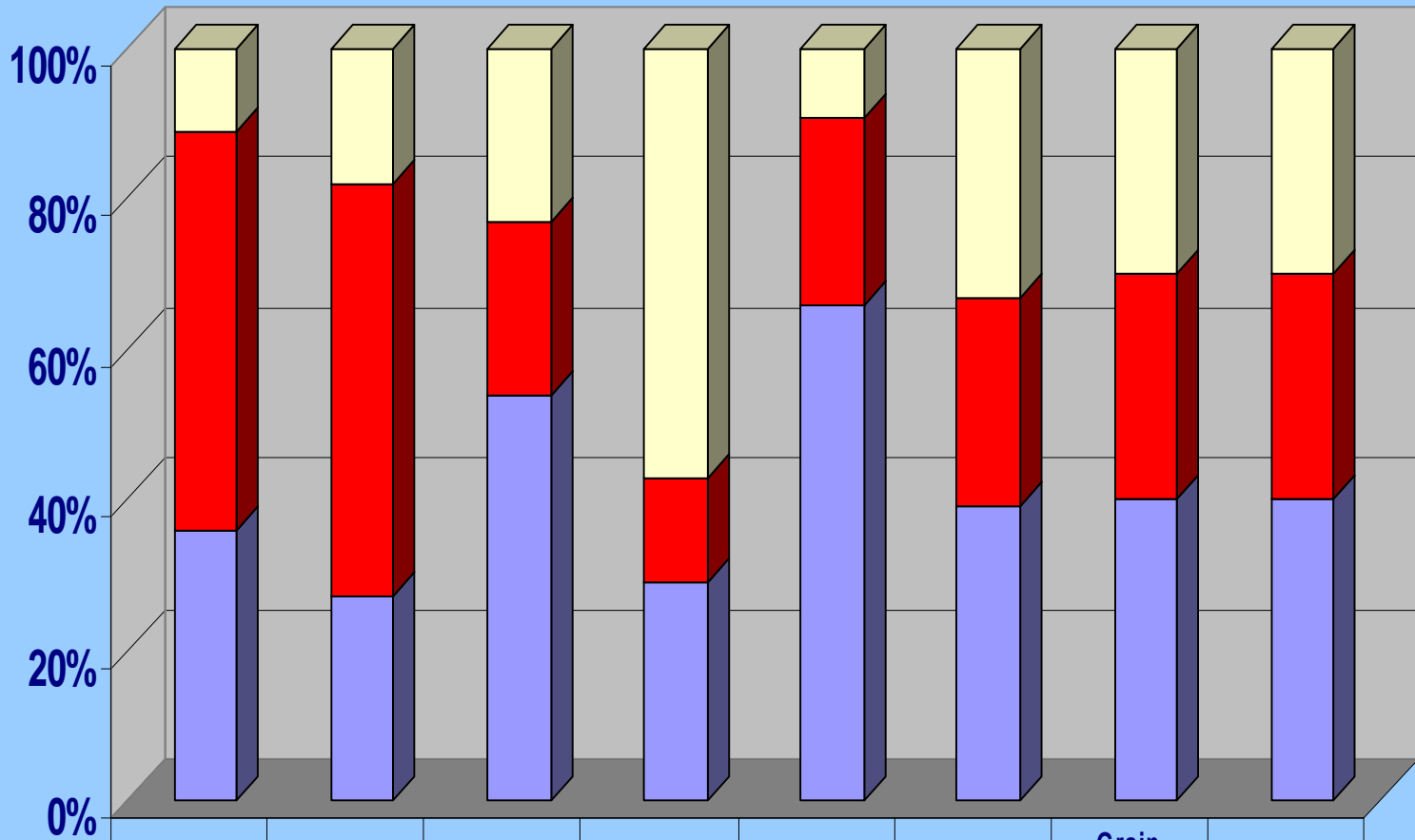
■ % of LDP



# Rivalry Between Crop Groups

- Where's the money going?
- Where is Wheat going?

## Detail of Program Crop Support



	Cotton	Peanuts	Rice	Soybeans	Wheat	Corn	Grain Sorghum	Barley
MLGs / LDPs	11%	18%	23%	57%	9%	33%	30%	30%
Counter-Cyclical	53%	55%	23%	14%	25%	28%	30%	30%
Direct	36%	27%	54%	29%	66%	39%	40%	40%

# Rivalry Between Crop Groups

- **Where's the money going?**
- **Where is Wheat going?**
- **Where is Corn going?**
- **Will Fruits & Vegetables want in... and demand a proportionate share of the money?**
- **Will Cotton Remain King?**
- **Will Crop Groups Hang Together? (Or Separately?)**

## **2007 Farm Bill Time-Line??**

- **Feb 6 – Administration's FY2007 Budget Revealed**
- **May – Congressional FY2007 Budget Resolution**
- **This Spring or Summer – Administration's Farm Bill Proposal... based on Farm Bill Listening Sessions? Is February Economic Report to Congress an indication of where they're headed???**
- **Senate will likely work to preserve as much of 02 Bill as possible / Spending Distribution...**
- **Will the House Champion the Administration's Farm Bill position?**

## **2007 Farm Bill Time-Line?? - *Continued***

- **House/Senate Hearings this coming year.**
- **Dec, 2006 – WTO Agreement Reached?**
- **June, 2007 – WTO Agreement Ratified in Congress? (Or dies when Trade Promotion Authority Expires July 1?)**
- **Sep-Mar 2007 / 2008 – the New Farm Bill Clears Congress and sent to the President?**

# Conclusions / Questions?

- **“The 2002 Farm Bill...As Good as it Gets”**
- **Get Ready for a Real Donnybrook... This is not the Time for Pacifism... Get Engaged.**
- **Questions?????**

# CRP Contract Expirations by Yr & State

