

Farm Policy Outlook

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The Agricultural and Food Policy Center
at Texas A&M University

Presentation Outline

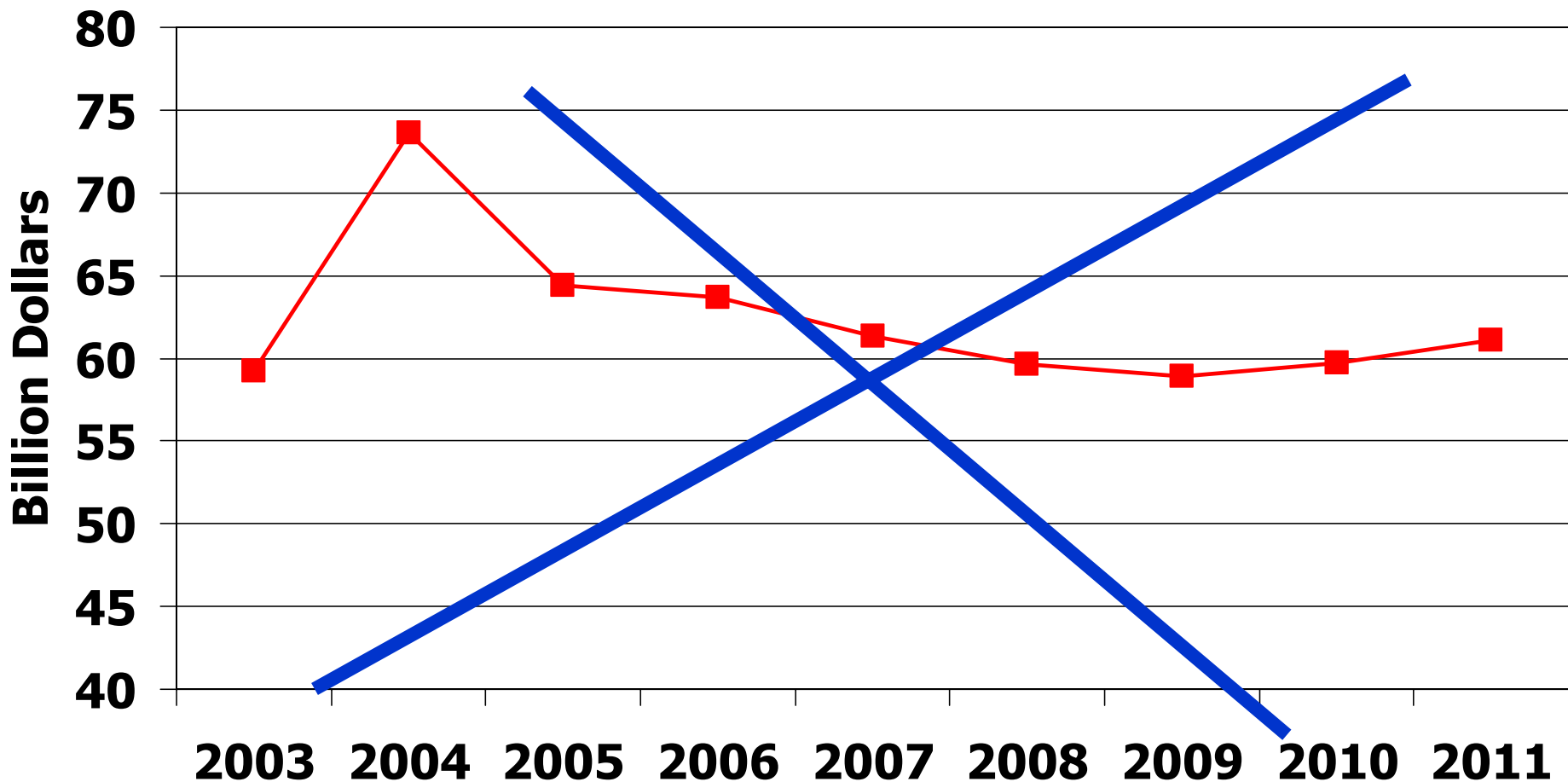
- What Shape is Agriculture In?
- The Perfect Quagmire/2007 Farm Bill
 - President With Other Priorities
 - WTO
 - Budget Deficits
 - More involved USDA and Secretary
 - Interesting Congressional Leadership Issues
 - More Players at the Table
- Concluding Thought

What Shape is Agriculture In?

- Depends on Who You Ask
 - USDA
 - Says things are great – never better (NCFI numbers)
 - AFPC Representative Farms
 - Our results say some commodities are ok and others...

USDA Net Cash Income Projections, FY 2003 to 2011

Revised 8/31/05: \$82.5 for 2004 \$71.8 for 2005



Representative Farms and Ranches



Definition of Financial Position

- **Good** – Less than 25% chance of a negative ending cash balance
- **Marginal** – A 25 - 50% chance of a negative ending cash balance
- **Poor** – Greater than 50% chance of a negative ending cash balance

August 2005 Baseline Summary

- Cash Flow Deficits 2005-2009

Farm Type	Good	Marginal	Poor
Wheat	2	5	6
Feed grains	2	4	12
Cotton	1	0	16
Rice	0	1	14

August 2005 Baseline Summary

- Cash Flow Deficits 2005-2009

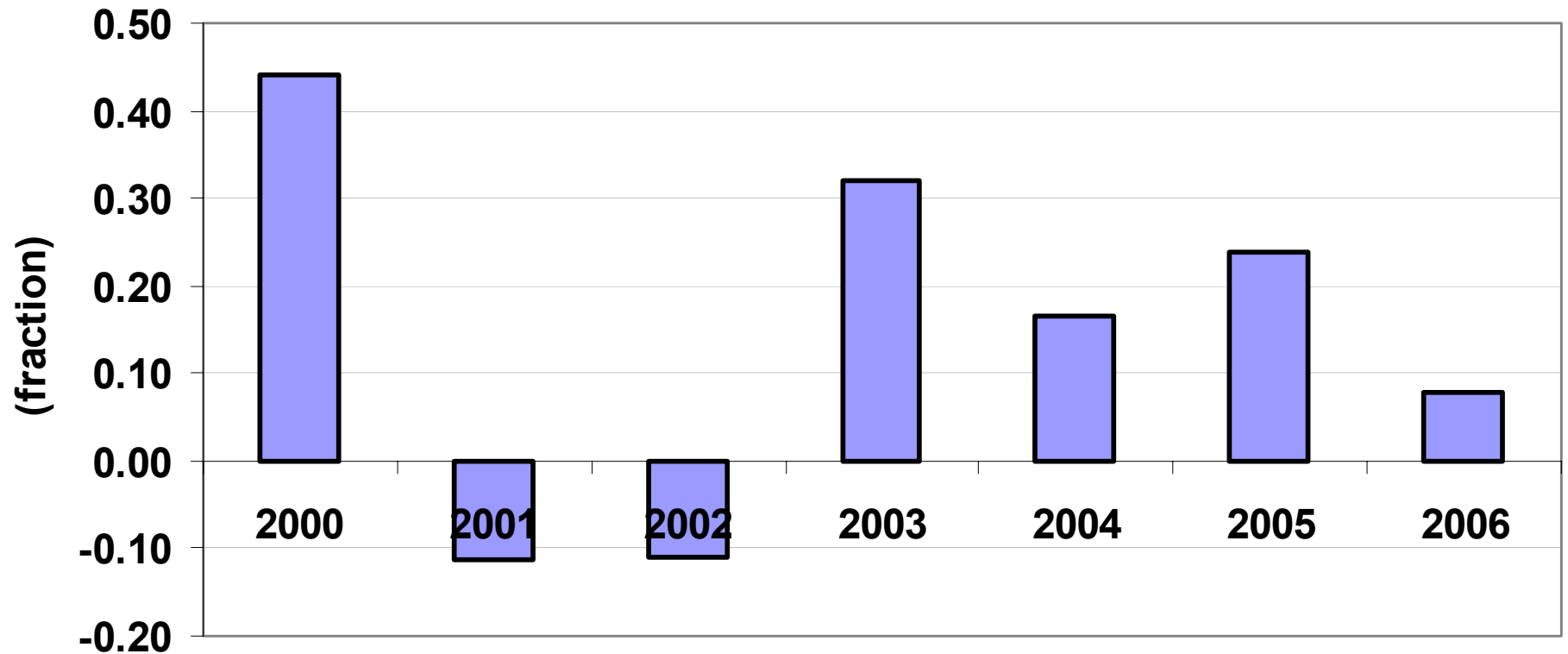
Farm Type	Good	Marginal	Poor
Dairy	5	8	10
Beef Cattle	3	2	8

Another Cost Price Squeeze?

- Energy prices increase
 - Fuel costs for production and marketing
 - Nitrogen fertilizer
 - Chemicals
- AFPC analyzed impacts of higher energy price for 2005 and 2006
- 99 representative crop and livestock farms

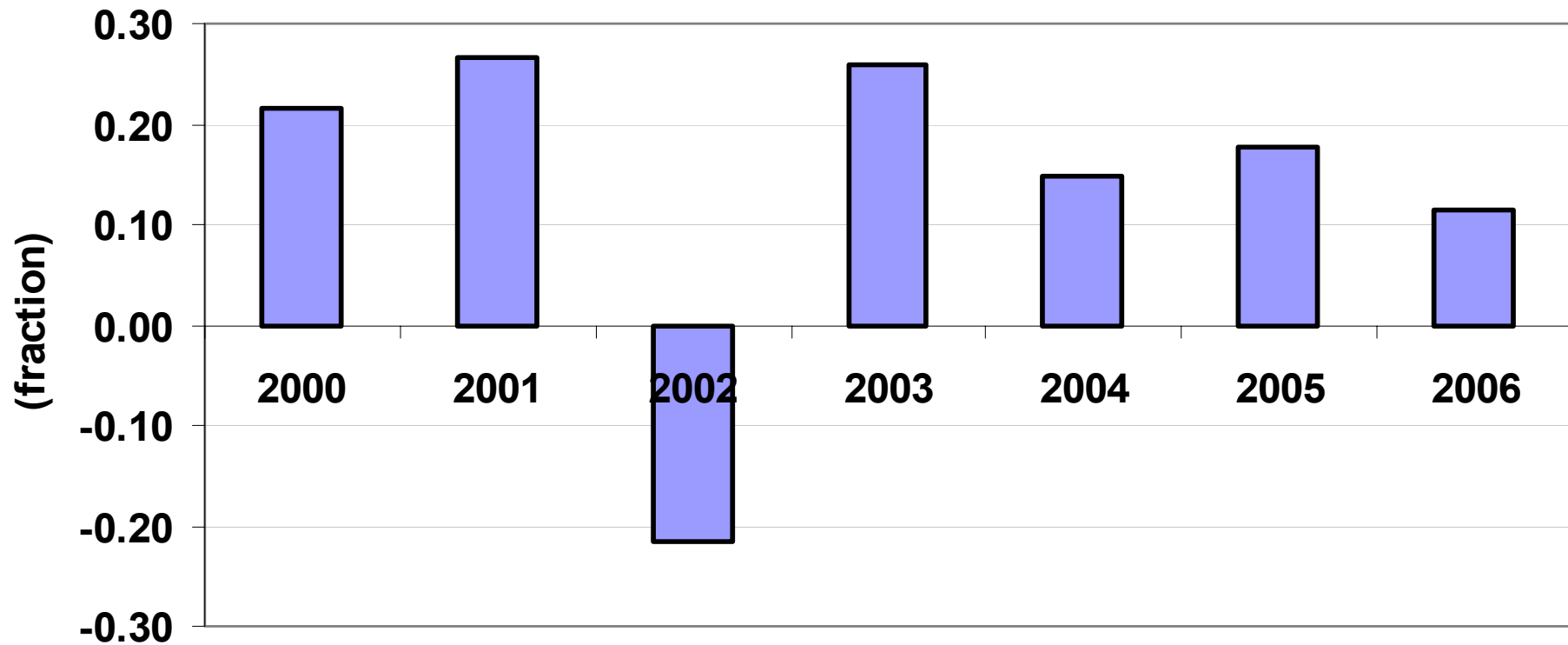
Fuel and Lube Price Changes

Annual Changes in Fuel Prices



Fertilizer Price Changes

Annual Changes in Fertilizer Prices



Impact on Net Cash Farm Income

Farms	Change NCFI Per Year	Change NCFI Per Year
Feed Grains	-\$40,700	-\$17.20/acre
Wheat	-\$23,000	-\$6.60/acre
Cotton	-\$62,000	-\$19.00/acre
Rice	-\$75,000	-\$42.40/acre

Impact on Net Cash Farm Income

Farms and Ranches	Change NCFI Per Year	Change NCFI Per Year
Dairy	-\$36,600	-\$49.20/cow
Beef Cattle	-\$12,900	-\$41.00/cow

The Perfect Storm/2007 Farm Bill

- If farmers had their way – just extend current bill
 - Right or Wrong - It is working as designed
 - But... do they still want current support mechanisms with significantly less money?
 - 2005 Budget Reconciliation
 - Current round is \$3 billion
 - Chambliss sees few changes in farm bill to achieve budget cuts
 - Is that possible?

The Perfect Quagmire

- Current Budget Reconciliation bill –
Where are we?
 - Postponed for 4 to 6 weeks
 - May be forgotten after Katrina what is \$3B?
 - Congress likely to give agriculture a disaster bill for 2005
- OMB Director Josh Bolten involved for President

Feeding Frenzy

"Members of Congress should, at least temporarily, deny themselves a few of the comforts of political office and refrain from directing tax dollars to special projects in their states that might help their political campaigns but not necessarily the country as a whole"

Senator John McCain

The Perfect Storm/2007 Farm Bill

- 2006 Budget Reconciliation?
 - Next budget reconciliation bill “promised to be twice as large”
 - Clearly spells trouble for commodity programs
 - This would cut beyond food programs, environment, and conservation
 - Would mean real cuts in DP, CCP and LDP
 - Insiders view ... 2007 will be the next BR
 - Is there a problem writing a farm bill and a BR at the same time?
 - Recall previous bills written in Budget Committee

The Perfect Storm/2007 Farm Bill

- President With Other Priorities
 - Administration gave Ag lots of new money in 2002 to expand income supports
 - Needs it back now for disaster relief
 - Katrina could go over \$210B
 - Plan on an Ag Disaster in Katrina Bill
 - Drought, flooding and high fuel prices
 - Already spent \$21.4B so for sure it will bring total over AMS of \$19.1B
 - Reducing payments to Ag also helps with WTO negotiations

The Perfect Storm/2007 Farm Bill

- President With Other Priorities -- continued
 - Administration using WTO and Cotton case to push US toward no farm support or at least more direct payments (not necessarily a good thing)
 - Gives US high ground in WTO negotiations
 - Smells more and more like dead fish to me
 - What is needed to be WTO compliant?
 - Ag exports are low priority for US negotiators but main issue for poor countries – makes a good bargaining chip
 - Administration still wants tax cuts
 - “No new taxes to pay for disaster”
 - Budget Deficits
 - Fiddling around the edges is not going to fix deficit

Where Did This Come From?

Agriculture Secretary Mike Johanns says he thinks American farmers would support lower federal subsidies for their products if they could sell them in open markets, free of tariffs and other barriers.

The Perfect Storm/2007 Farm Bill

- More Involved USDA and Secretary
 - Involvement may be good but will delay process
- Interesting Congressional Leadership Issues
 - House leadership not in this position before
 - Senate leadership fighting over payment limits
- Energy Bill
 - Going to cause issues among commodity groups
 - Corn, Oilseeds, and Sugar

The Perfect Storm/2007 Farm Bill

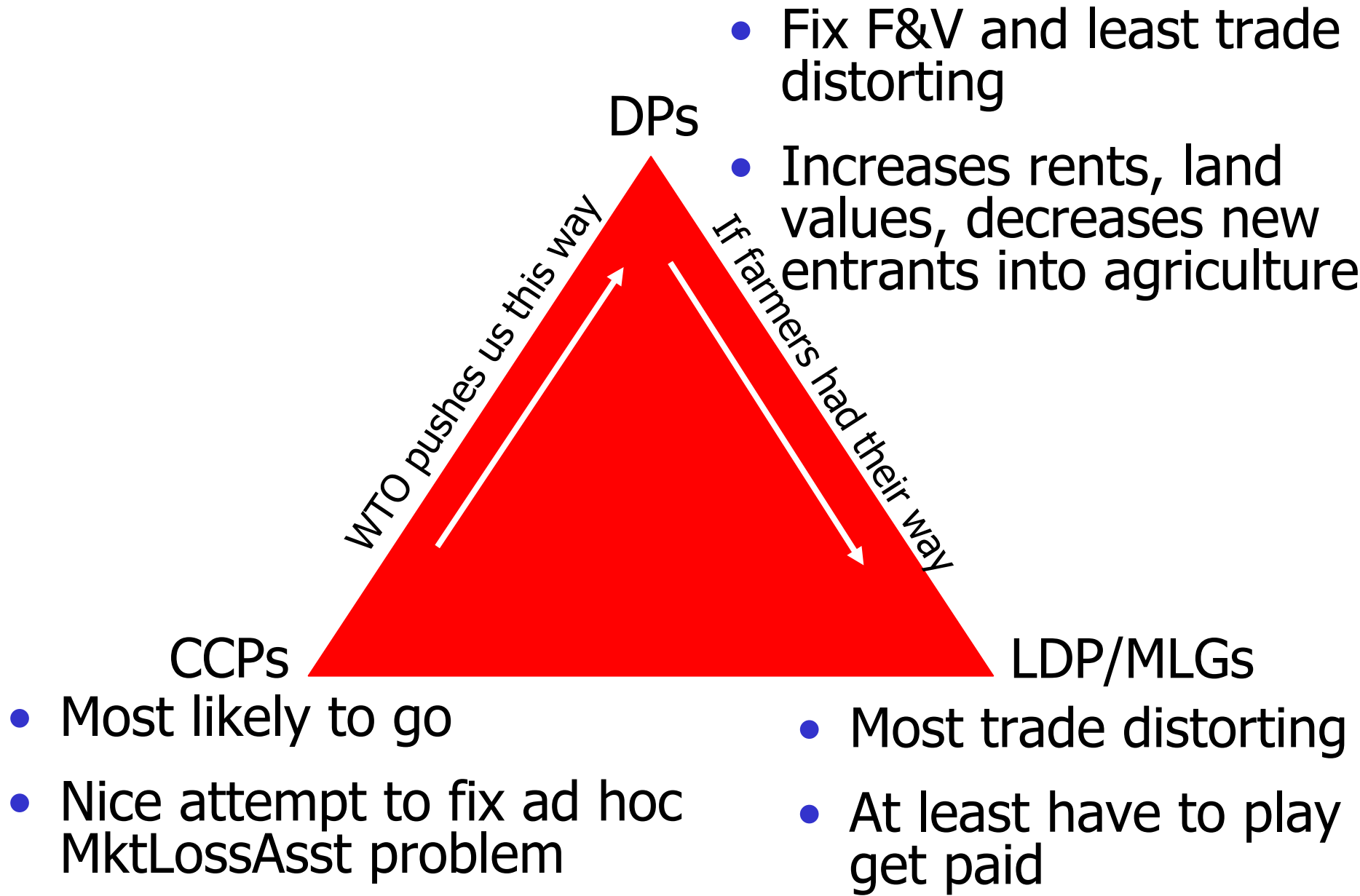
- Will be a push for “completely different type of agricultural support” for 2007
 - Leaner and Greener more WTO compliant
 - Less money to go around
- More players at the table
 - PETA raised \$10M to counter animal ag.
 - OXFAM prepared to lobby for poor countries
 - WTO forces – pro and con
 - Fruit and vegetable growers – wild card

What About Trade?

"The EU must signal its willingness to import more U.S. farm products and reduce domestic farm subsidies before the United States will consider cuts in its own farm spending."

Senator Saxby Chambliss

Forces Shaping Debate for Farm Supports



The Perfect Storm/2007 Farm Bill

- Key factor to remember -- Presidents do not pass legislation
- Secretary makes recommendations for the President
- Congress still writes and passes legislation
 - After listening to all interests
- Deficit is there really a problem?
 - Can we finance big mandatory spending, disaster spending, and afford tax cuts?

Concluding Thought

- There is a saying that ag policy is 'evolutionary not revolutionary' – I agree
- 2007 Farm Bill
 - Likely begin late 2006
 - Leaner and likely to be Greener in increments
 - Does not have to be passed until year end
 - Lots of people encouraged to express views at listening sessions
 - Secretary can get support for anything
- But Perfect Storm or Quagmire??

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Coming Soon

Equitability of
Program
Payments
Across
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Comparison of
Cotton Cost
of Production
– U.S. and
South
America

Policy Tools for
U.S.
Agriculture

Higher Energy
Prices
Impacts on
Agriculture