

Southern Farm Policy Outlook

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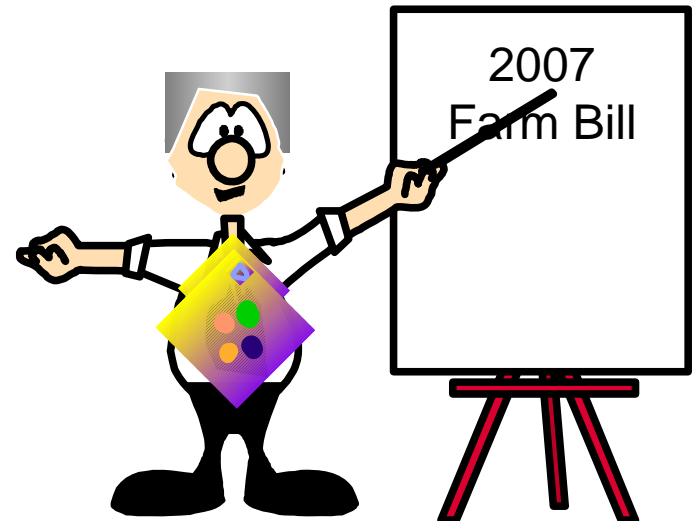
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Presentation Outline

- Farm Bill Setting
- The South as I See It
- Administration Proposal
 - Impact of Johanns leaving
- House Bill
- Senate Ag Committee
- What We Think Will Happen
- Conclusions



Farm Bill Setting

- Three key issues driving action or inaction depending on your choice of words
 - Budget – get to spend what you would have spent under current bill.
 - Higher commodity prices lowers spending.
 - Ex. Will spend about \$7B less on commodity programs in 2007 than 2006
 - Budget committees really muddied the water – can spend xx billion
 - WTO – while current negotiations appear to be going nowhere, the threat of a case against the U.S. makes Congress wary
 - Some in Congress would like to make direct payments contingent on price – but that would make them amber box
 - Politics – new majority want to be seen as doing their job
 - Otherwise there would just be an extension of the 2002 bill

Farm Bill Setting (Cont.)

- Administration came out with their bill
 - Wasn't embraced but wasn't flat out rejected either
 - At this point who can remember what they wanted?
 - Secretary resigned, packed his office and left last Friday
 - Doesn't matter --- who would want it?
- House passed their bill even though there were several attempts to radically change
- Waiting on the Senate
 - This is normally the case
 - Harkin promised to mark-up his bill this week (we'll see)

The South As I See It

- Geography versus Crops
 - Traditional Southern States
 - From Texas/Oklahoma East up to Virginia
 - Traditional Southern Crops
 - Cotton, Peanuts and Rice
 - And a little bit of this and that (SB, Wheat, F&V)
 - Includes beef and dairy cattle, poultry and catfish
 - Nontraditional South
 - Cotton includes California and Arizona
 - Rice includes California and Missouri
 - Fruits and Vegetables (WA, CA, AZ, MI, NY)
 - Green Industry???

The South As I See It

- Representation
 - Senate Ag Committee
 - Chambliss (R GA)
 - Cochran (R MS)
 - Lincoln (D AR)
 - McConnell (R KY)
 - Graham (R SC)
 - House Ag Committee
 - 9 Ds and 10 Rs out of 46
 - Administration
 - Mark Keenum
- Champions (Those in a position to get something done)
 - Chambliss, Lincoln, Goodlatte and who else?
- Interest Groups
 - Cotton, Peanuts, Rice, NCBA, who else?
 - Dairy? Poultry? F&V?

WTO - Cotton

- Agriculture Negotiating Chairman Crawford Falconer Text
 - Treats cotton differently – 90% cut in loan rate, 75% CCP
 - No brackets
- Group of 10 – Chambliss
 - Richard Burr (R-N.C.)
 - Thad Cochran (R-Miss.)
 - Elizabeth Dole (R-N.C.)
 - Lindsey Graham (R-S.C.)
 - Johnny Isakson (R-Ga.)
 - Mary Landrieu (D-La.)
 - Blanche Lincoln (D-Ark.)
 - Mark Pryor (D-Ark.)
 - David Vitter (R-La.)
 - Texas, Arizona and California ??

Commodity Provisions of Administration's Proposal

- Revise Marketing Loan Rates
 - 5 yr Olympic average of market price
- Increase direct payments by \$5.5 billion
 - Primarily cotton and rice
- Replace CCP with nationally based Revenue Assurance
- Continue MILC (lower payment fraction)
- Payment limits (save \$1.5 billion)
 - Eliminate 3 entity rule – go to direct attribution
 - New limits (\$110,000 each DP and CCP and \$140,000 LDP)
 - Eliminate separate limit for peanuts, honey, wool and mohair
 - Means test (\$200,000 Adj Gross Income down from \$2.5 million)

House Bill

- Keeps direct payment rates the same through 2012
- CCP retained and creates CC revenue payment based on national target revenue
 - Producers given 1 time choice of getting either
 - Increase target prices for wheat, barley, oats, soybeans and other oilseeds.
 - Decrease target price for cotton
- Marketing loan retained
 - Increases loan rates for wheat, barley, oats, minor oilseeds, wool, and small chickpeas
 - Decrease dry peas and lentils
 - Change AWP to use a “Far East” market price
 - Create domestic cotton users program (\$0.04/lb) for construction and modernization of facilities and equipment
 - Equalizes corn and sorghum loan rates in each county

Target Prices for Counter-Cyclical Payments

New Revenue-Based Counter-Cyclical Option

Commodity	\$/Unit	H.R. 2419		
		Chairman's Mark	2002 Farm Bill	Change
Wheat	Bu.	4.15	3.92	0.23
Corn	Bu.	2.63	2.63	No Change
Sorghum	Bu.	2.57	2.57	No Change
Barley	Bu.	2.73	2.24	0.49
Oats	Bu.	1.50	1.44	0.06
Up. Cotton	Lb.	0.70	0.7240	(0.024)
Rice	Cwt.	10.50	10.50	No Change
Soybeans	Bu.	6.10	5.80	0.30
Peanuts	Ton	495	495	No Change
Minor Oilseeds	Lb.	0.1150	0.1010	0.014

Commodity	\$/Unit	National Target	National Payment
		Revenue	Yield
Wheat	Bu.	149.92	36.1
Corn	Bu.	344.12	114.4
Sorghum	Bu.	131.28	58.2
Barley	Bu.	153.30	48.6
Oats	Bu.	92.10	49.8
Up. Cotton	Lb.	496.93	634
Rice	Cwt.	548.06	51.28
Soybeans	Bu.	231.87	34.1
Peanuts	Ton	683.83	1.496
Minor Oilseeds	Lb.	129.18	1167.6

Direct Payment Rates under HR 2419
Levels are the same as 2002 Farm Bill

Commodity	\$/Unit	H.R. 2419
		Chairman's Mark
Wheat	Bu.	0.52
Corn	Bu.	0.28
Sorghum	Bu.	0.35
Barley	Bu.	0.24
Oats	Bu.	0.024
Up. Cotton	Lb.	0.0667
Rice	Cwt.	2.35
Soybeans	Bu.	.44
Peanuts	Ton	36
Minor Oilseeds	Lb.	0.008

This is the key to the CCR thing



Nonrecourse Marketing Loan Rates

Commodity	\$/Unit	H.R. 2419 Chairman's Mark	2002 Farm Bill	Change
Wheat	Bu.	2.94	2.75	0.19
Corn	Bu.	1.95	1.95	No Change
Sorghum	Bu.	1.95	1.95	No Change
Malt Barley*	Bu.	2.50	1.85	0.65
Feed Barley*	Bu.	1.90	1.85	0.05
Oats	Bu.	1.46	1.33	0.13
Up. Cotton	Lb.	.52	0.52	No Change
ELS Cotton	Lb.	0.7977	0.7977	No Change
Long Grain Rice**	Cwt.	6.50	6.50	No Change
Medium/Short Grain Rice**	Cwt.	6.50	6.50	No Change
Soybeans	Bu.	5.00	5.00	No Change
Peanuts	Ton	355	355	No Change
Minor Oilseeds	Lb.	0.1070	0.093	0.014
Dry Peas	Cwt.	5.40	6.22	(0.82)
Lentils	Cwt.	11.28	11.72	(0.44)
Small Chickpeas	Cwt.	8.54	7.43	1.11
Graded Wool	Lb.	1.10	1.00	0.10
Nongraded Wool	Lb.	0.40	0.40	No Change
Honey	Lb.	0.60	0.60	No Change
Mohair	Lb.	4.20	4.20	No Change

House Bill (Cont.)

- Payment limits tightened
 - Reduced AGI limit from \$2.5 million to \$1 million with no exceptions or
 - \$500,000 if more than 67% of AGI is from farming
- Eliminates 3-entity rule and requires “direct attribution” of payments to a natural person
- Relaxes limits by:
 - Raising limit on direct payments from \$40,000 to \$60,000
 - Eliminating \$75,000 limit on marketing loans/LDPs
 - Results in a \$250,000 overall limit with a husband and wife down from \$360,000 with 3-entity

House Bill (Cont.)

- No change in fruit and vegetable planting restrictions
- Dairy – continues price support program and MILC
- Conservation
 - Expands EQIP
 - Prohibits new CSP signups until 2012
 - Extends CRP and WRP
 - Sets an overall limit of \$60,000 for any single conservation program and \$125,000 for all programs

Senate Ag Committee Bill

- Who the heck knows...
- Senator Harkin has a big problem
 - Initially wanted to significantly change commodity programs and increase conservation \$
 - Doesn't have the votes to get his bill out of committee
 - Other Ag committee Senators Chambliss (R) and Conrad (D) working on an alternative farm bill
 - Budget committee gave them extra \$20 billion if it is offset
 - Has been waiting on Finance committee to find extra money for farm bill

Senate Ag Committee Bill (Cont.)

- Harkin appears to want to change CCP program to a CC revenue payment with a national trigger
 - Durbin-Brown
- The rest of the commodity title similar to 2002 farm bill
- Wants to increase funding for:
 - Conservation spending (especially CSP)
 - Fruit and vegetables
 - Renewable energy

What We Think Will Happen

- Different parts of the 2002 farm bill expire over the next few months
 - If Senate can't move forward very soon will likely get a short-term (several months) extension of 2002 bill
 - Long term (1 to 2 year) extension still possible but not likely because leadership wants to be seen as leading
 - Our guess is that the farm bill will get done late this year and signed by the President early next year

What We Think Will Happen

- There is no scenario that the bill changes radically from the 2002 farm bill
 - If no new money becomes available then the odds go up the commodity title will have some funds diverted
- Parts of the bill are likely to change:
 - Payment limits will be tighter
 - Probably tighter AGI cap and no 3-entity
 - Will get some type of CC revenue payment program
 - The fight is whether they can afford a state trigger versus a national trigger for payments

Conclusions

- Farm Bills are about giving and taking
 - You need champions
 - The South isn't in the best position but... the new South may help
- Bottom line...
 - Very likely to have much the same programs in 2007 FB not because that's what everyone wants but.. because there is not much money to spend on anything else
 - Best case scenario for Southern crop and livestock producers

Thank you...

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Direct Payment Rates

	Current	2007 Proposal
Wheat (\$/bu)	0.52	0.52
Corn (\$/bu)	0.28	0.28
Grain Sorghum (\$/bu)	0.35	0.35
Barley (\$/bu)	0.24	0.24
Oats (\$/bu)	0.024	0.024
Upland Cotton (\$/lb)	0.0667	0.0667
Rice (\$/cwt)	2.35	2.35
Soybeans (\$/bu)	0.44	0.44
Other Oilseeds (\$/lb)	0.008	0.008