

Thinking About the Next Farm Bill

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Ag policy information – agmanager.info
USDA program information – www.usda.gov

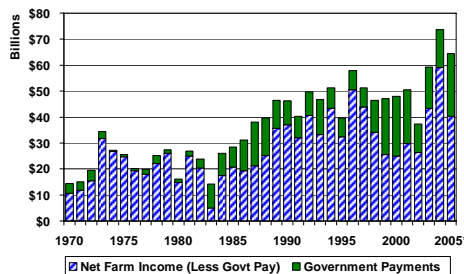


The Setting

- ◆ The Economic Setting
- ◆ The Budget Setting
- ◆ The Trade Setting
- ◆ The Political Setting

The Economic Setting

U.S. Net Farm Income and Government Payments



The Economic Setting

Summary

- ◆ Net farm income is up
 - Record \$73.6 billion in 2004
 - Estimated \$64.4 billion in 2005 second only to 2004
- ◆ Importance of government payments down
 - Averaged 28.6% of NFI in 2004-2005
 - Averaged 40.3% of NFI in 1998-2001

The Budget Setting

The President's Budget Proposal

- ◆ Ag spending cuts
 - Tie marketing loan benefits to historical production
 - Reduce payment limit cap to a hard limit of \$250,000 per individual
 - Reduce crop and dairy payments by 5%
 - Adopt sugar marketing assessments of 1.2%
 - Operate dairy price support programs at least-cost
- ◆ Proposed savings
 - \$5.7 billion over FY06-FY15 (CBO scored at \$9.4 billion of FY06 – FY10)
 - \$587 million in FY06 (\$1.2 billion prior to extension of MILC program through FY07 at \$600 million per year)

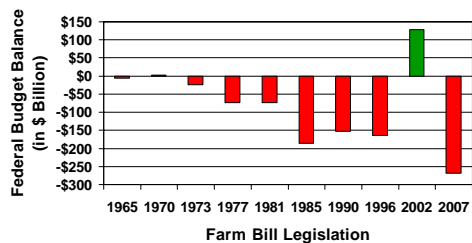
The Budget Setting

Congressional Budget Reconciliation and Other Issues

- ◆ Budget reconciliation
 - \$3 billion in spending cuts over FY06 – FY10
 - Cuts from mandatory programs
 - Commodities
 - Conservation
 - Nutrition
 - Deadline for identifying cuts – September 16, 2005
- ◆ Additional considerations
 - MILC program extension through FY07 could cost as much as \$1.8 billion
 - CAFTA impact on sugar program could cost \$500 million over 10 years

The Budget Setting

Deficits Are Not the Only Factor



The Budget Setting

Summary

- ◆ The President's budget proposal makes substantial targeted and across-the-board cuts
- ◆ The Congressional budget reconciliation will be difficult given size of mandatory spending cuts and other considerations
- ◆ The budget situation going into 2007 is different than in 1996 and 2002

The Trade Setting

WTO Framework Agreement

- ◆ Domestic Supports
 - Cap and reduce trade-distorting supports
 - 20% immediately from cap
 - Further tiered reductions over time
 - Redefined "blue box"
- ◆ Export Competition
 - Reduce and phase out all forms of export subsidies
 - Disciplines on food assistance
- ◆ Market Access
 - Cap and reduce tariff rates
 - Consideration for "sensitive" products

The Trade Setting

Future Trade Negotiations

- ◆ WTO negotiations
 - Lack of progress since July 2004 framework agreement
 - Likely not completed for ministerial meeting in Hong Kong in December
- ◆ CAFTA aftermath
 - Votes were not principled trade votes, but partisan votes and pork-barrel votes
 - Trade-weary and trade-wary Congress
- ◆ Administration position on ag subsidies
 - U.S. willing to get rid of ag subsidies if EU does?
 - Not an offer of unilateral disarmament

The Trade Setting

WTO Trade Disputes

- ◆ Brazil-U.S. cotton case
 - Export subsidies ruled illegal – to be removed by July 1
 - Step 2 program
 - Subsidizing portion of export credit programs
 - Domestic supports over limit – to be corrected within 15 months (June, 2006)
 - Fixed payments included in calculation
 - Marketing loans, counter-cyclical payments, and market loss assistance payments caused injury

The Trade Setting

Summary

- ◆ WTO negotiations proceeding very slowly
- ◆ Implementing trade agreements very tough politically in Congress
- ◆ Key domestic policy issues being driven by WTO complaints, not WTO negotiations

The Political Setting

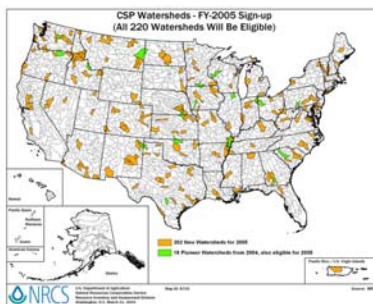
- ◆ Timing is an issue
 - Current language runs through 2007
 - Congressional hearings in 2006
 - WTO progress in 2006?
 - Elections in 2006
- ◆ The ag sector's voice is an issue
 - Cattlemen are fighting each other
 - Cotton is fighting the WTO ruling
 - Asking for no further cuts beyond compliance
 - Sugar is fighting windmills
 - Promises under CAFTA only last through 2007
 - Specialty crop producers are looking for a piece of the pie

The Political Setting

- ◆ More players at the table
 - Conservation interests want a larger share of money

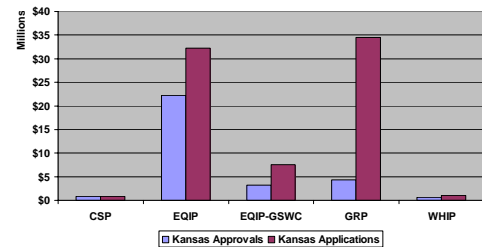


Conservation Programs CSP Implementation through FY 2005



Conservation Programs in Kansas

Selected Programs FY 2004



The Political Setting

- ◆ More players at the table
 - Conservation interests want a larger share of money
 - Food safety and homeland security are competing for funds
 - Animal identification, BSE surveillance
 - Nutrition and food assistance are key to the Farm Bill coalition
 - Rural development and energy are looking for funding

The Political Setting Summary

- ◆ The political timeline says go slowly
- ◆ The ag community is not speaking as a coalition
- ◆ Other voices and interests are being heard

Summary and Outlook

- ◆ Farm Bill is driven by several factors
 - Economic setting
 - Budget setting
 - Trade setting
 - Political setting
- ◆ The timeline is predictable
 - Listening tour underway
 - Congressional hearings in 2006
 - Legislation in 2007