



# ***What Do You Get When You Mix Budget Deficits, Trade Policy and a New Farm Bill?***

***Jim Wiesemeyer  
Informa Economics***

***Range Beef Cow Symposium XIX  
Dec. 6, 2005***



# *White House*

- ***President Bush*** poll results low -- around 34%
- ***Weakened presidency:*** Social Security reform; Tax reform; tax cuts -- estate tax; deficit reduction; Doha Round
- ***Players... and nominations:***
  - USDA team: Mike Johanns, Chuck Conner, replacement for Bill Hawks?
  - White House ag adviser Mike Sommers
  - USTR: replacement for Allen Johnson -- Dick Crowder
  - Federal Reserve: Greenspan departs Jan. 2006; Ben Bernanke



# Iraq, Afghanistan

- **Costs:** \$6 to \$8 billion each month; forcing budget decisions on other issues
- **End zone:** Not in sight...years away. Pullback *begins* in 2006, likely 30,000 troops
- **Congressional debate:** election-year impact



# Congress

- **Timeline:** Hurricane Katrina, etc., has extended session until mid-December; disaster aid
- **Ethics:** House Majority Leader DeLay indicted
- **Ethics:** Senate Majority Leader Bill Frist
- **2006 and 2008 elections:** Democrats regroup; Hillary Clinton picked to lead issue makeup



# *Elections: Congress*

## ■ 2006 elections: 18 Dem, 15 GOP

- GOP: Frist\* (Tenn.), Burns (Mont.), Lott (Miss.), Lugar (Ind.), Santorum (Pa.), Talent (Mo.), Thomas (Wyo.)
- Dem./Indep.: Conrad (N.D.), Dayton\* (Minn.), Feinstein (Calif.), Jeffords\*, Nelson (Neb.)

## ■ 2008 elections: 12 Dems, 21 GOP

- GOP: Allard (Colo.), Chambliss (Ga.), Cochran (Miss.), Coleman (Minn.), Craig (Idaho), Hagel (Neb.), McConnell (Ky.), Roberts (Kan.)
- Dem.: Baucus (Mont.), Durbin (Ill.), Harkin (Iowa), Johnson (S.D.)



# ***2006 and 2008 Elections Come Into Play***

- **Who will control House and Senate after mid-term elections. Minority party typically gains seats and recent governors races are signaling potential problem for continuing Republican control.**
- **Who will chair the Senate and House Ag committees. Currently Chambliss (R-GA) and Goodlatte (R-VA). Could it be Harkin (D-IA) and/or Peterson (D-MN)?**



# *Current Environment for Agriculture*

- **Macro:** U.S. and world economy outlook; budget deficits drive policy in future years.
- **Farm policy:** farm bill in place, but with high budget exposure; new farm bill debate has already begun but principal drivers are not solidified.
- **Trade policy:** Doha update; Brazil case re: U.S. cotton subsidies; U.S. rice subsidies; Soybeans next? Canada trade issue re: U.S. corn; FTA with South Korea
- **Farm economy:** Rising expenses (notably energy) and larger meat and milk supplies will be increasing concern in 2006. Wild card issues: bird flu, soybean rust, terrorism



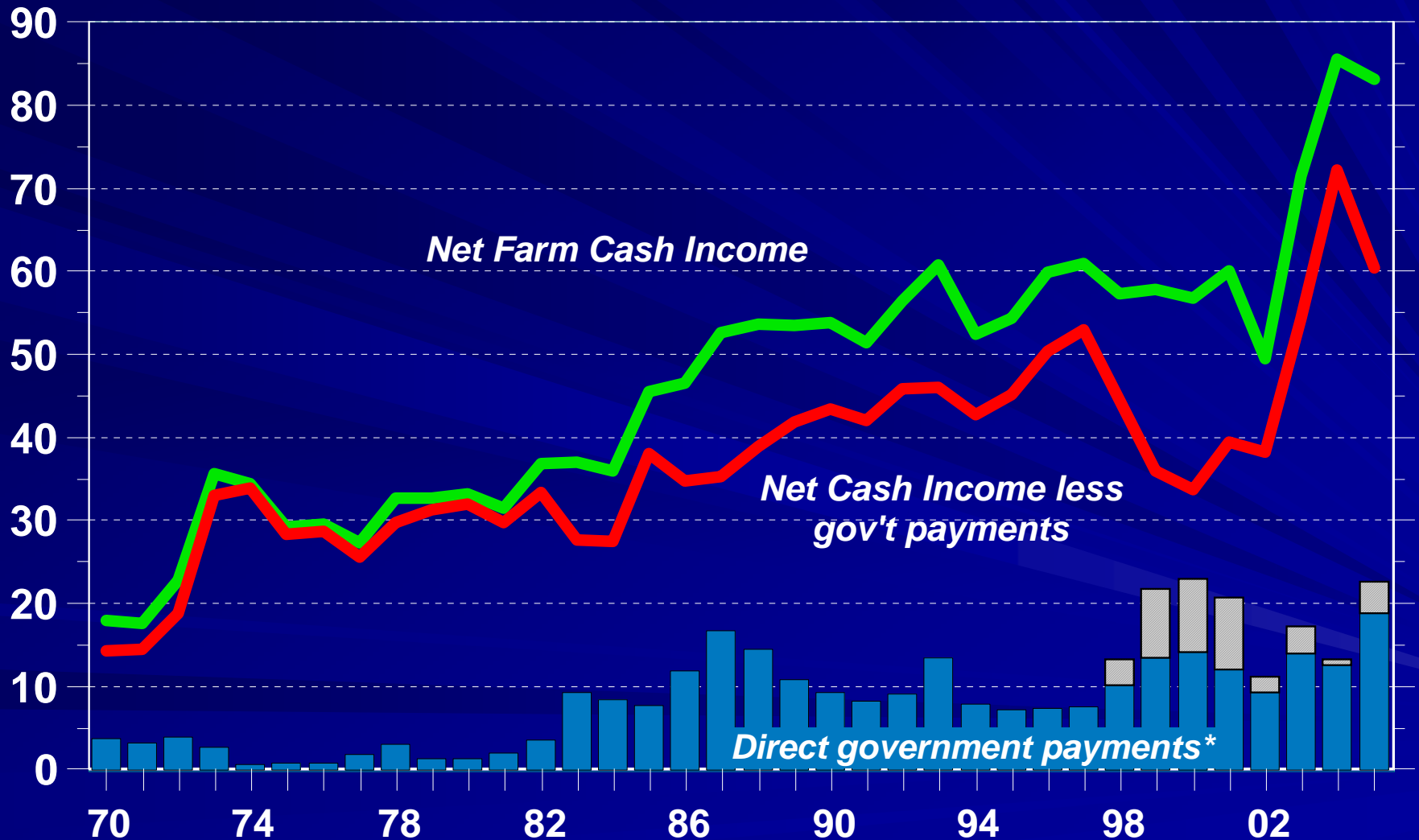
# Continued Large Supplies Signal Transition

	2001/02	2002/03	2003/04	2004/05	2005/06
		----- Dollars per bushel -----			
Wheat	2.78	3.56	3.40	3.40	3.00 - 3.50
Corn	1.91	2.32	2.40	2.06	1.70 - 2.00
Soybeans	4.38	5.53	7.35	5.74	5.00 - 6.00
		----- Dollars per ton -----			
Soybean meal	168	182	260	175	160 - 180
		----- Dollars per hundredweight -----			
Rice	4.25	4.49	7.49	7.33	7.00 - 7.50
		----- Cents per pound -----			
Cotton	29.8	44.5	61.8	41.6	45 - 50
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
		----- Dollars per cwt. -----			
Cattle	67.04	84.69	84.75	85.46	75-80
Hogs	34.92	39.45	52.51	49.38	43-46
		----- Cents per pound -----			
Broilers	55.6	62.0	74.1	71.9	70-75
Turkeys	64.5	62.1	69.7	72.3	67-73
		----- Dollars per cwt. -----			
Milk	12.11	12.52	16.03	15.25	13.00-14.00



# U.S. Farm Income and Acreage Values

Billion dollars



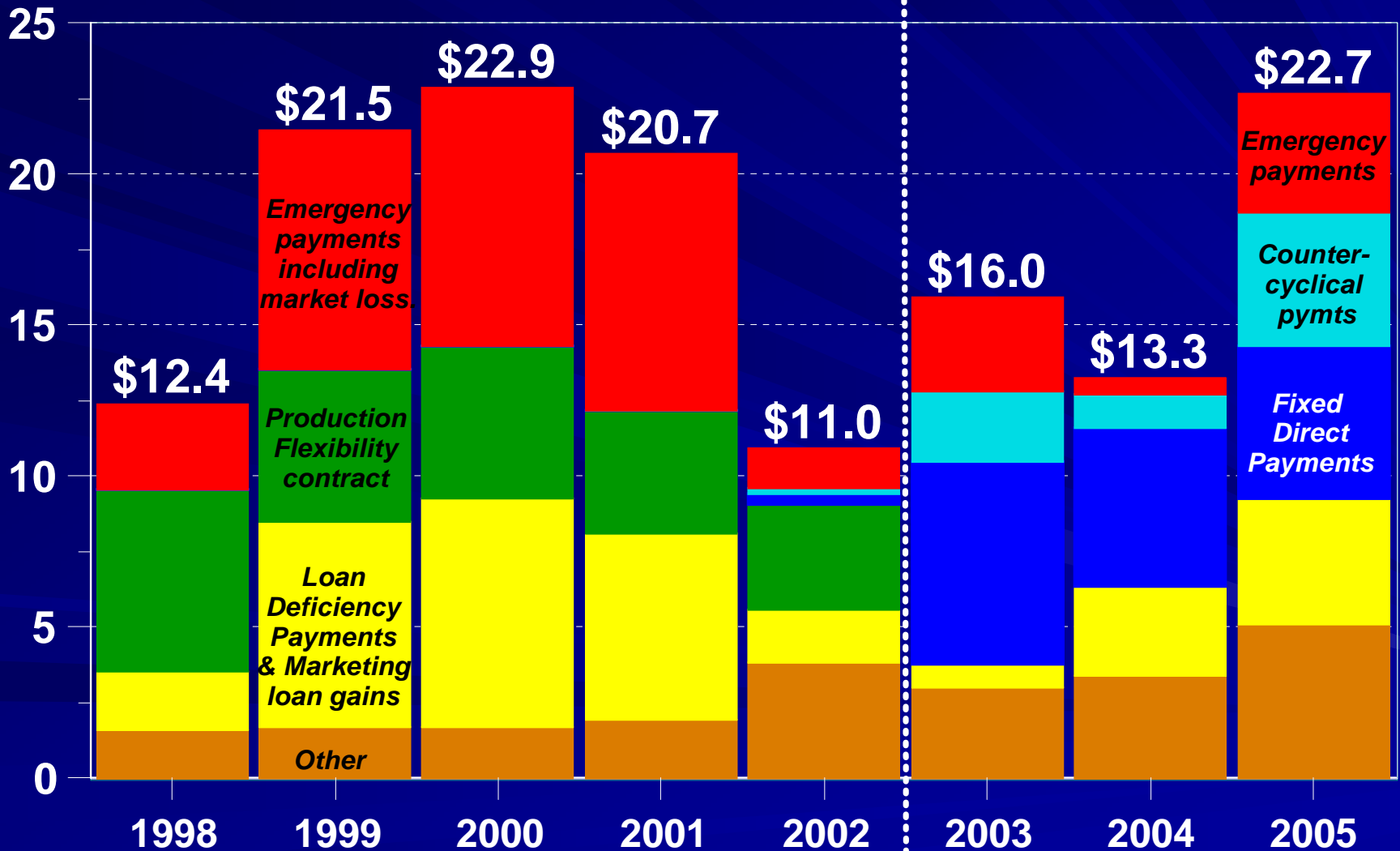
\* emergency payments are striped area of government payments)



# Direct Payments to Producers

Billion dollars per calendar year

2002 Farm Bill

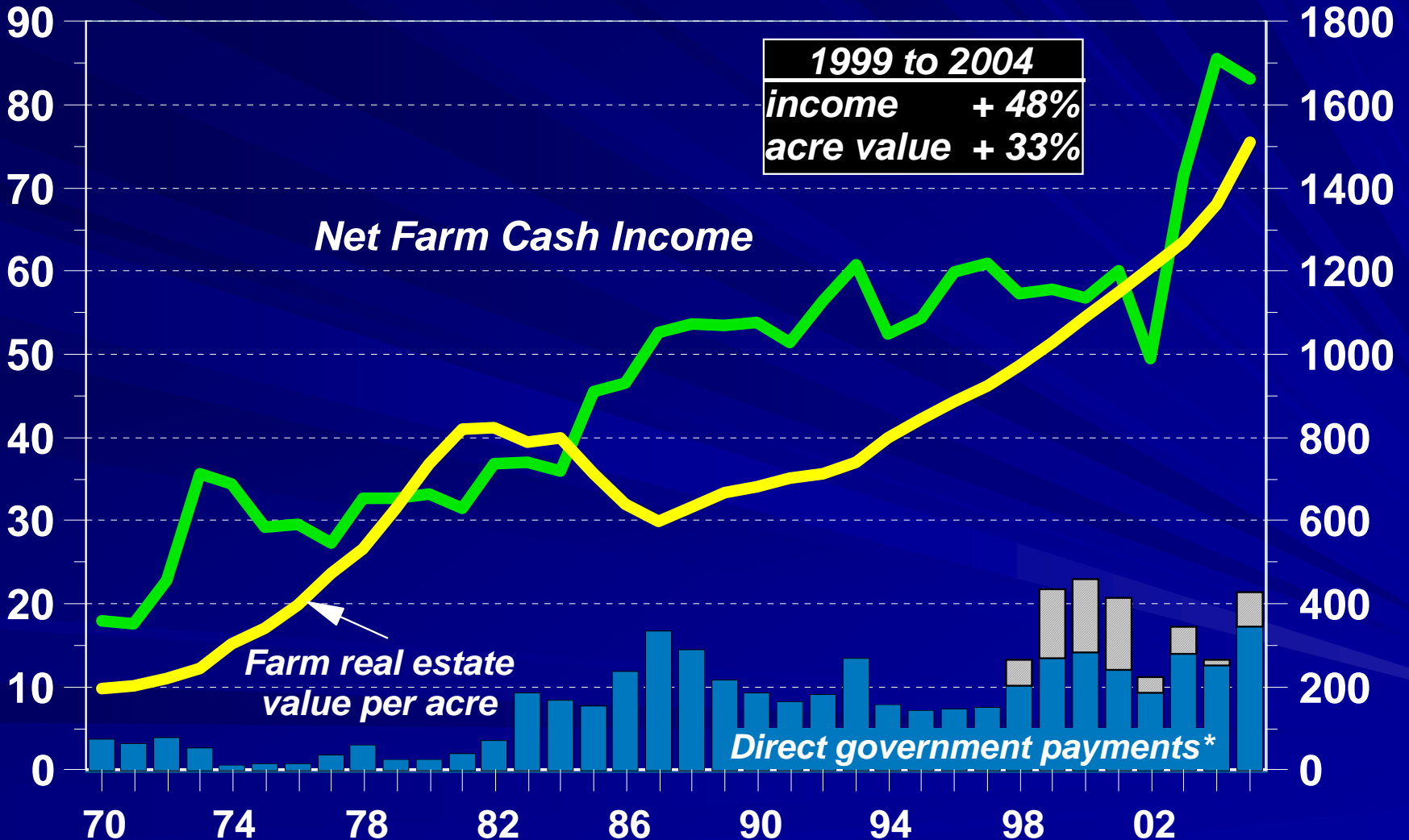




# U.S. Farm Income and Acreage Values

Billion dollars

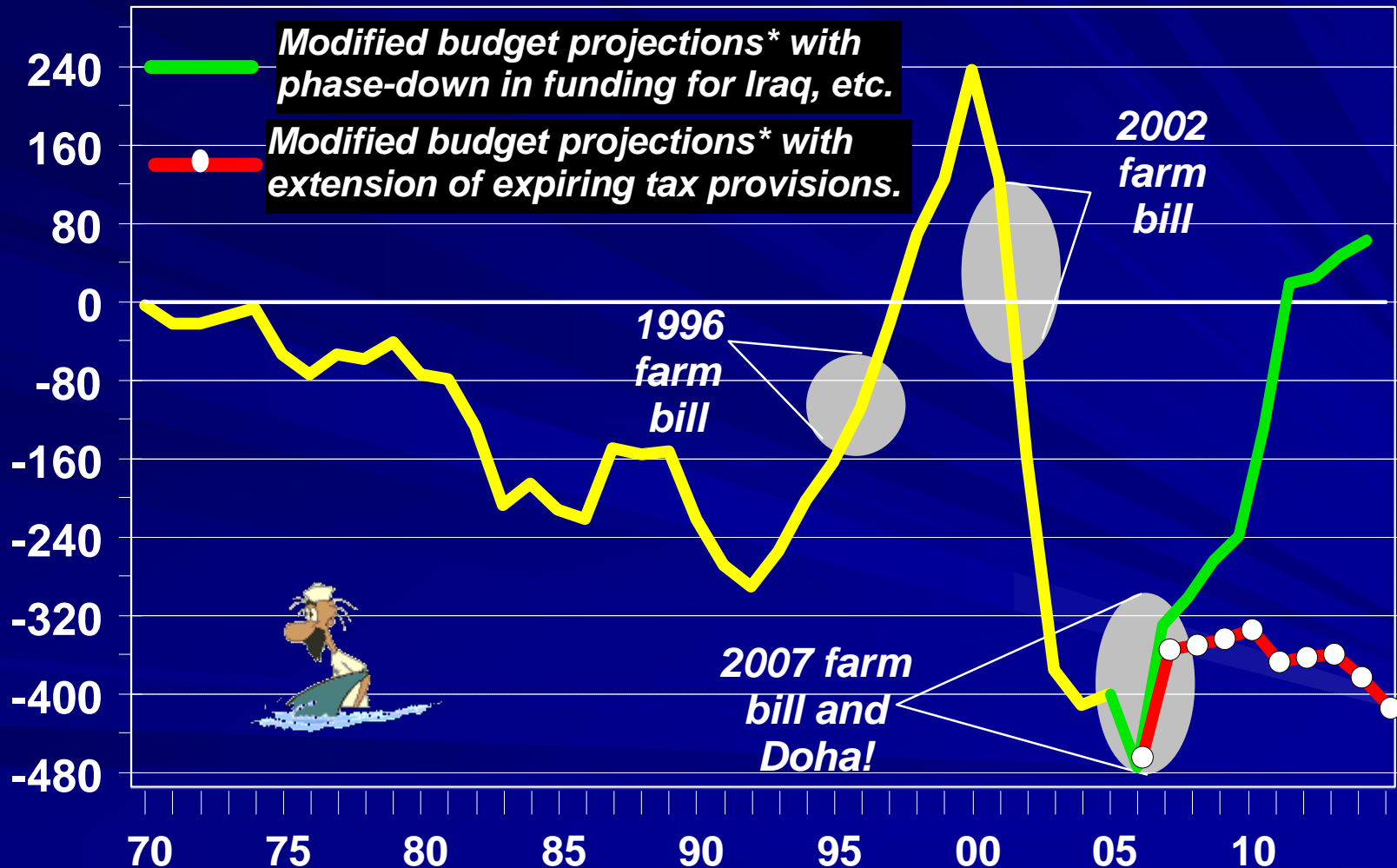
Value per acre



\* emergency payments are striped area of government payments

# Budget Pressures Will Have Significant Role in Farm Bill Debate

Billion dollars



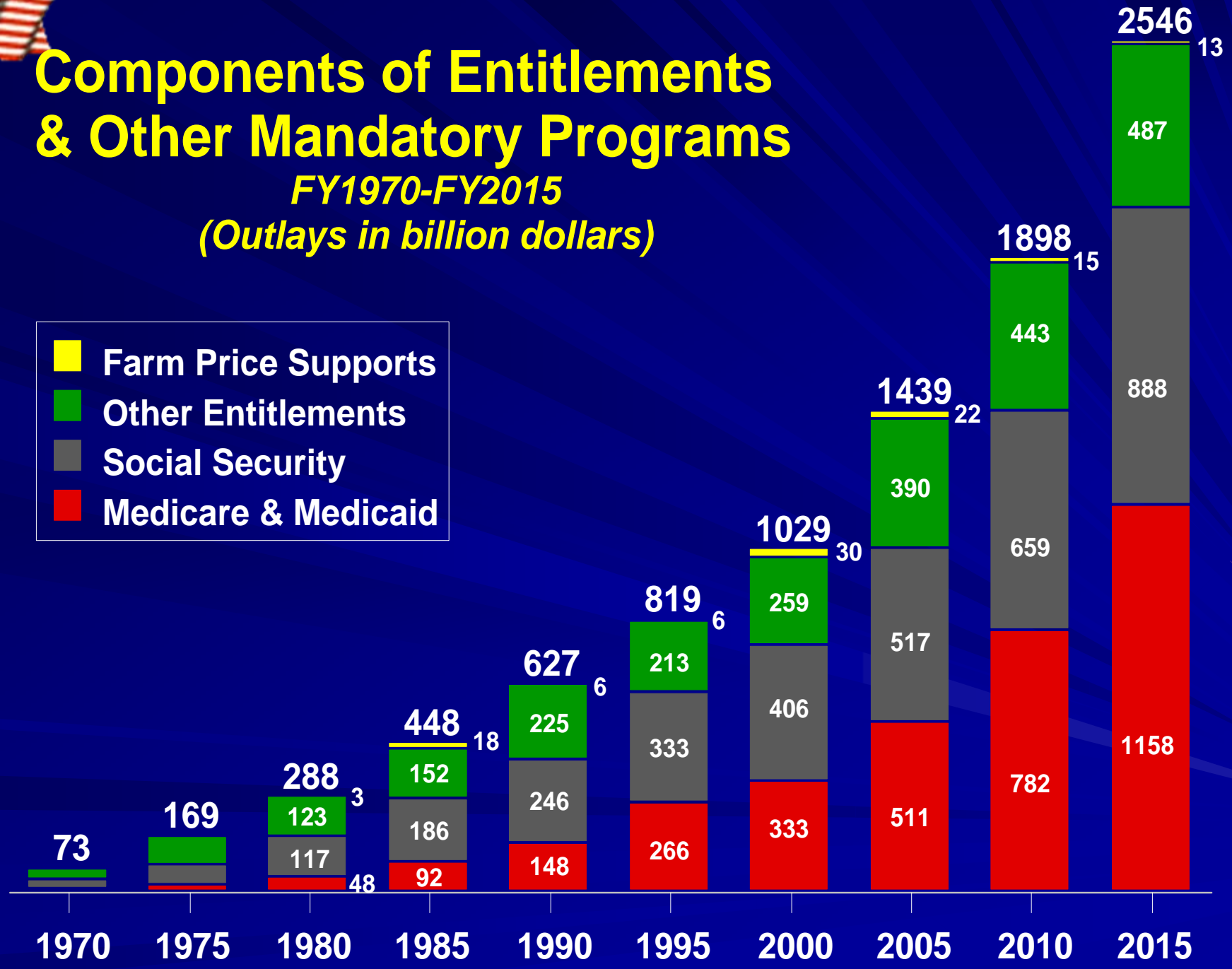
\* August, 2005 CBO projections of alternative assumptions.  
Assumes discretionary spending increases at rate of inflation.



# Components of Entitlements & Other Mandatory Programs

FY1970-FY2015  
(Outlays in billion dollars)

- Farm Price Supports
- Other Entitlements
- Social Security
- Medicare & Medicaid





# Budget Cuts for Ag

## Cuts in mandatory spending over 5 years

House: \$49.9 billion

Senate: \$35 billion

■ Senate: \$3 bil. in cuts --

- assumes two-year extension of Milk Income Loss Contract program; reduces payments to ag producers by 2.5%; limit annual direct advance payments to no more than 40% for '06 crop year and no more than 29% for '07-11 crop years; repeals Step 2 cotton Aug. 1 , 2006

■ House has \$3.6 billion in ag budget cuts

- No MILC program extension; repeals Step. 2 cotton Aug. 1, 2006; reduce direct payments by 1% for '06-'09; reduce advance direct payments from 50% to 40% for '06 and '07

## – Tax cuts/extensions

■ Senate: \$60 billion; House: \$56 billion



# *Livestock Industry Issues*

- **Avian Influenza**
- **Country-of-origin labeling:** Extension easier than repeal
  - Key questions re: COOL that few ask
- **Mandatory livestock price reporting:** GAO report coming on Dec. 9 -- Grassley vs Goodlatte
- **Animal ID:** Unknowns: timing, cost, who pays
- **BSE -- Japan, South Korea delay in resuming U.S. beef purchases:** U.S. Congress threatens sanctions
- **BSE -- Canada:** Increasing cattle processing; cattle OTM

# Canada is Restructuring

- Objective is to be self sufficient to market live animals
- Capacity pre May 2003 was 72K head
- Now over 88K head (22%)
- Will reach 97K by December 2005 (35%)
- Self sufficiency around 105K (45%)



# **The World Trade Organization: Doha Round**

*(November 2001 and the Doha Ministerial Conference)*

***Without prejudging the outcome, member governments commit themselves to comprehensive negotiations aimed at:***

- ✓ **domestic support: substantial reductions for supports that distort trade**
- ✓ **market access: substantial reductions in barriers**
- ✓ **exports subsidies: reductions of, with a view to phasing out, all forms of these**



# *Doha Round*

- **Some progress** on march to ministerial meeting Hong Kong in Dec. 13-18
  - Some U.S. lawmakers cancel trip to Hong Kong
  - Some groups, lawmakers have ‘trade agreement fatigue’
- **Perspective on developing countries:**
  - Developing countries: 80% of global population by 2020; will buy 2/3 of world’s meat & poultry exports, up from just 1/3 in the 1980s
- **If Doha fails:** some WTO members will come after U.S. farm programs -- especially corn, sorghum, rice and soybeans
- **Peace Clause:** gone now, but important for U.S. & EU



# U.S. Proposes Sharp Cuts in Domestic Subsidies

	Current allowed	Recent levels	<i>U.S. proposal*</i>	
			<i>Reductions</i>	<i>Impacts</i>
<b>United States</b>				
Amber box	\$19.1	\$14.6	-60%	\$7.6  40%
Blue box	unlimited	\$6.0	cap at 2.5%	\$5.0
de minimis	less than 5%	\$0.6	-50%	less than 2.5%
Green box	unlimited	\$50.0	no change	unlimited
<b>European Union</b>				
Amber box	\$82.9	\$44.7	-83%	\$15.0  65%
Blue box	unlimited	\$21.5	cap at 2.5%	\$8.0
de minimis	less than 5%	\$0.5	-50%	less than 2.5%
Green box	unlimited	\$20.4	no change	unlimited

\* U.S. proposal calls for reduction based on bound levels: \$25 bil.+ (83%); \$12-14 bil. (60%) and \$0-12 bil. (37%). EU proposes maximum cuts at 60%.



# *Next Farm Bill*

- **Field hearings:** Ag Committee will likely start field hearings on a new farm bill in early '06
- **USDA 'listening sessions':** USDA/White House to take active role -- perhaps offering farm bill language
- **Timeline:** Like '02 farm bill, anticipate long process; Johanns wants new farm bill by early 2007
  - Democrats pushing for '02 Farm Bill extension
- **Doha Round** negotiations to mesh with new farm bill; trade promotion authority ends July 1, 2007
- **Ag cuts coming:** Benefits will decline, but safety net will remain -- major unknowns: budget and Doha Round developments



# *Next Farm Bill*

## ■ Cato Institute...Dan Sumner

- Report: ‘U.S. Farm Programs Violate International Obligations’; U.S. subsidies depress world wheat prices by 6 to 8 percent; corn by 9 to 10 percent; rice by 4 to 6 percent rice prices

## ■ Oxfam

- Briefing paper: ‘Why the EU and the USA Must Reform Their Subsidies, Or Pay the Price’

## ■ France

- Pres. Jacques Chirac urges U.S. remove subsidies to cotton producers, “as Europe has undertaken to do” for a new fair and reasonable trade order in the world



# *Next Farm Bill*

- **Leaner**
  - Dairy... sugar
- **Green...greener if budget cuts not severe**
  - '02 Farm Bill: 82% of funding into farm payments of which 69% for commodity support... 70% to 10% of farmers
- **Major changes only if Doha Round concludes and is aggressive or budget cuts are severe...big ifs**
- **Farm program payment cap reduction**
- **Floor debate: battle royal**
- **Wild card: revenue/income assurance**
- ***Farm bills are evolutionary, not revolutionary***



# ***What Do You Get When You Mix Budget Deficits, Trade Policy and a New Farm Bill?***

***Jim Wiesemeyer  
Informa Economics***

***Range Beef Cow Symposium XIX  
Dec. 6, 2005***