

Budget Outlook on 2007 Farm Bill

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To

Farm Foundation Farm Bill Forum

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Issues that will drive Farm Bill

- Federal Budget deficit will likely loom over future legislation as Congress considers tax cuts, war in Iraq and on terrorism & spending reductions.
- Budget intersections with WTO trade negotiations or agreement will likely complicate writing Farm Bill.
- Competition for Budget Resources to fund other programs such as Conservation.

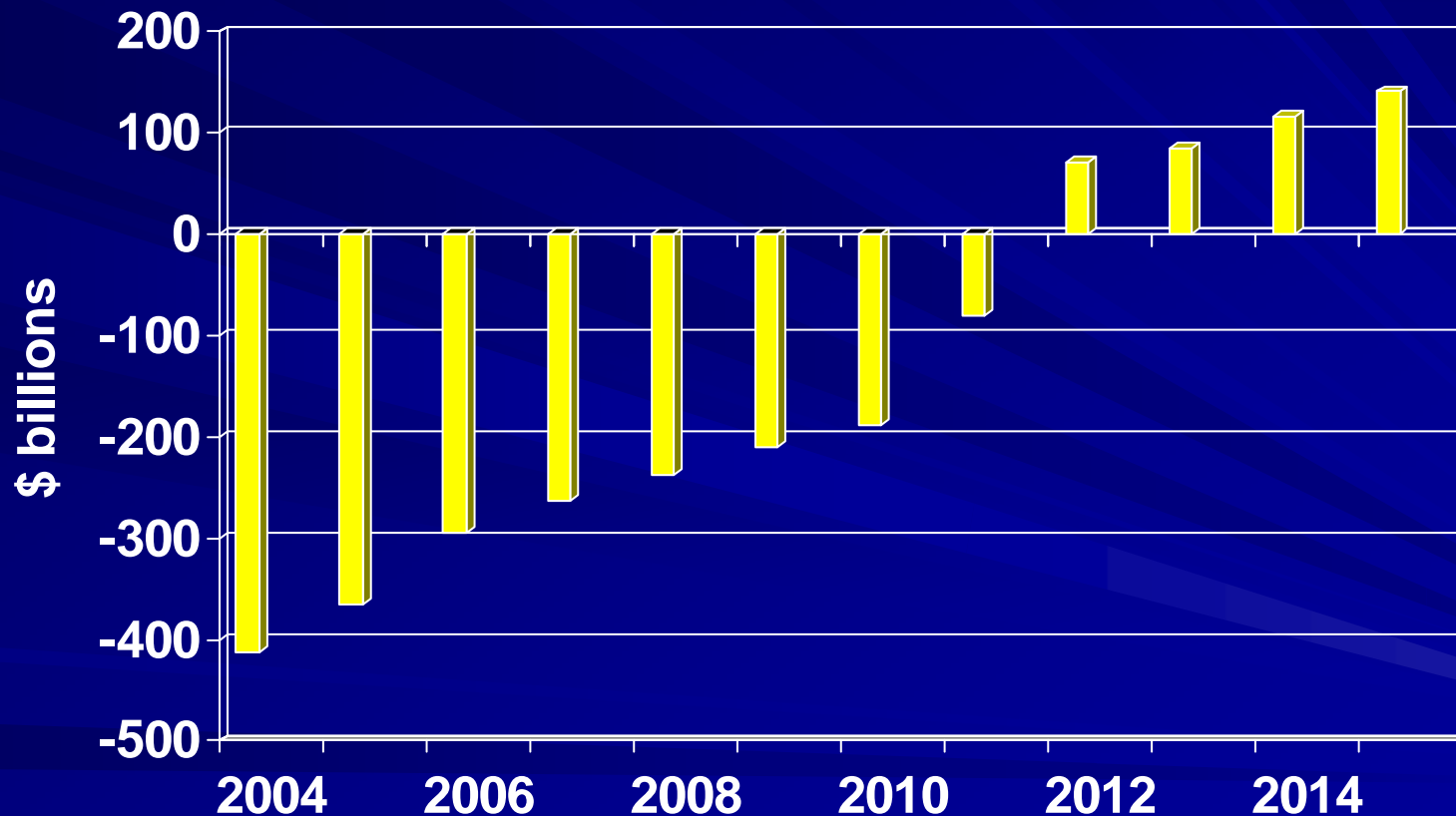
Budget Outlook

- Budget situation and outlook has determined outlook for farm policy.
- Federal deficits from 1981 to 1995 have led to cuts in agriculture spending in deficit reduction legislation.

Budget Outlook

- Federal surpluses in 1998 through 2001 have provided funding for emergency market loss and crop loss assistance and the Agricultural Risk Protection Act.
- 2001 projected 10-year federal surplus of \$5.6 trillion provided \$79 billion additional funding to write 2002 Farm Bill, along with \$1.3 trillion tax cut.

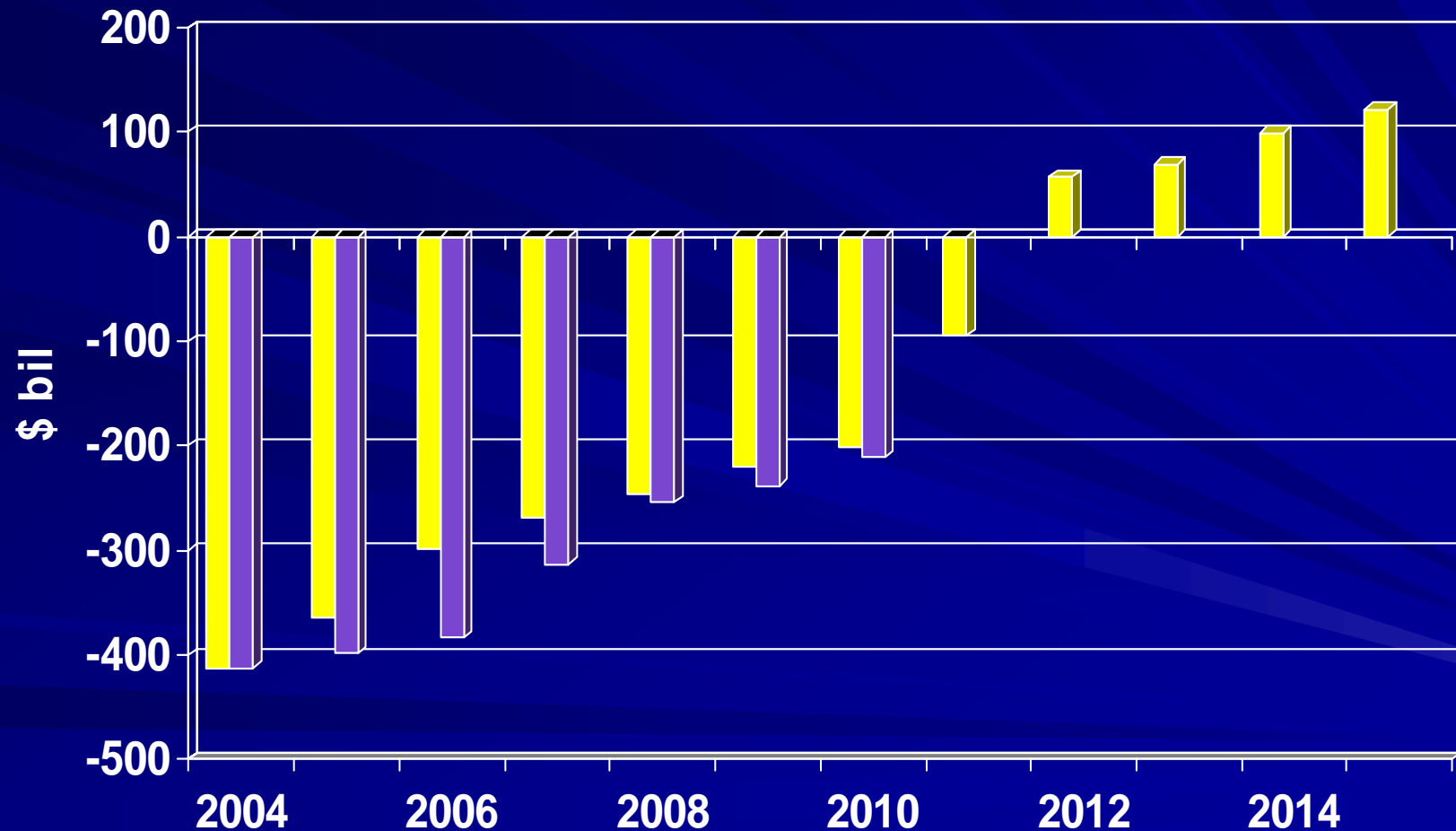
Projected Surplus/Deficit(-) CBO March 2005 Baseline



2006 Congressional Budget Resolution, \$ Billion

Fiscal Year	2006-10
Tax Cuts	-106
Entitlement Cuts	30
Iraq Supp 2005 & 2006	-99
Net Discretionary Change	44
Additional Debt Service	-36
Total	-167

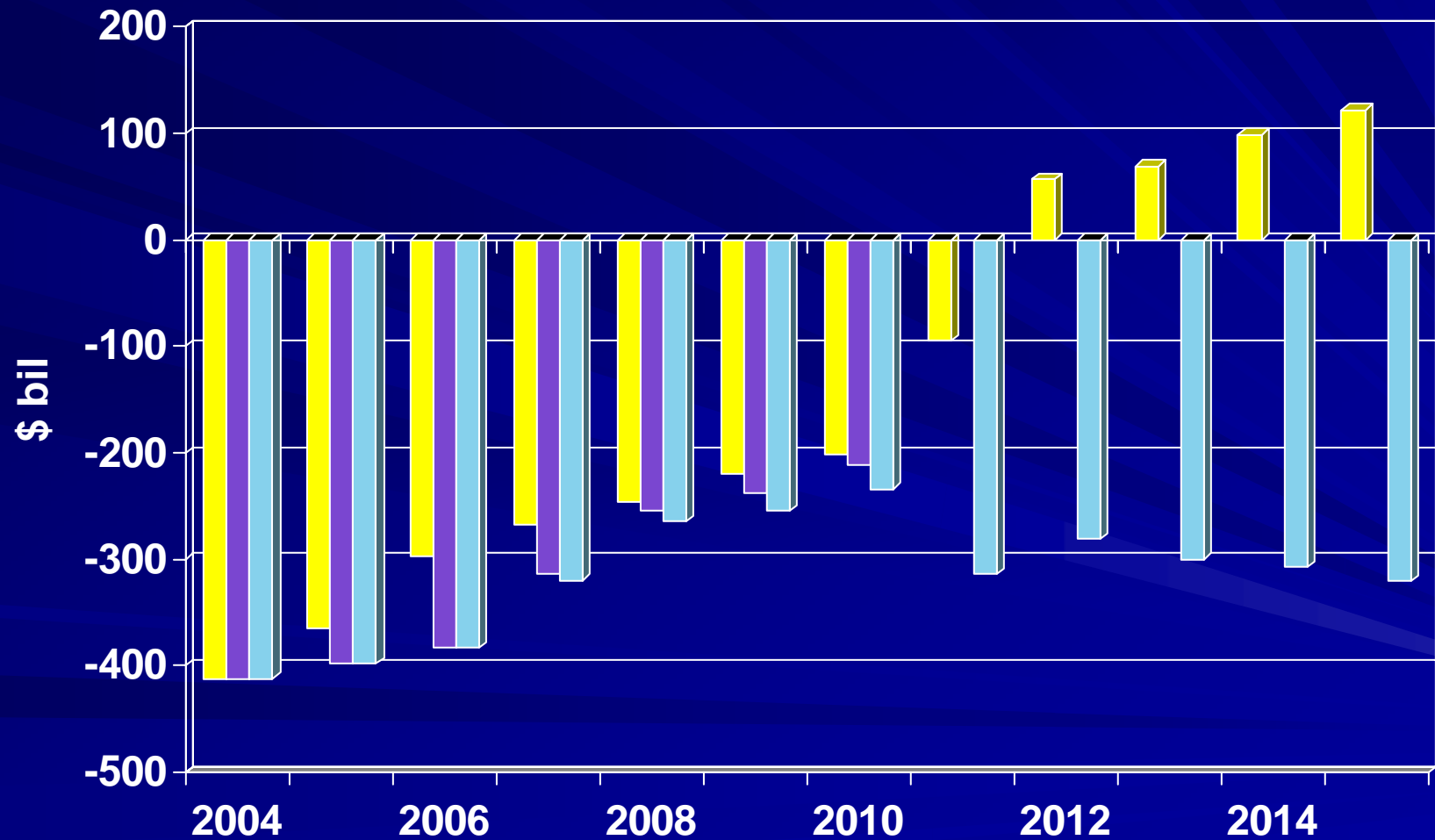
Projected Surplus/Deficit(-) Resulting Deficit w/CBR



Budget Outlook, \$ Billion

Fiscal Year	2006-15
CBO 2005 March Baseline	-980
Cong. Budget Resolution 2006-10	-167
Extend CBR 2011-15	-1,685
Resulting Deficit	-2,493

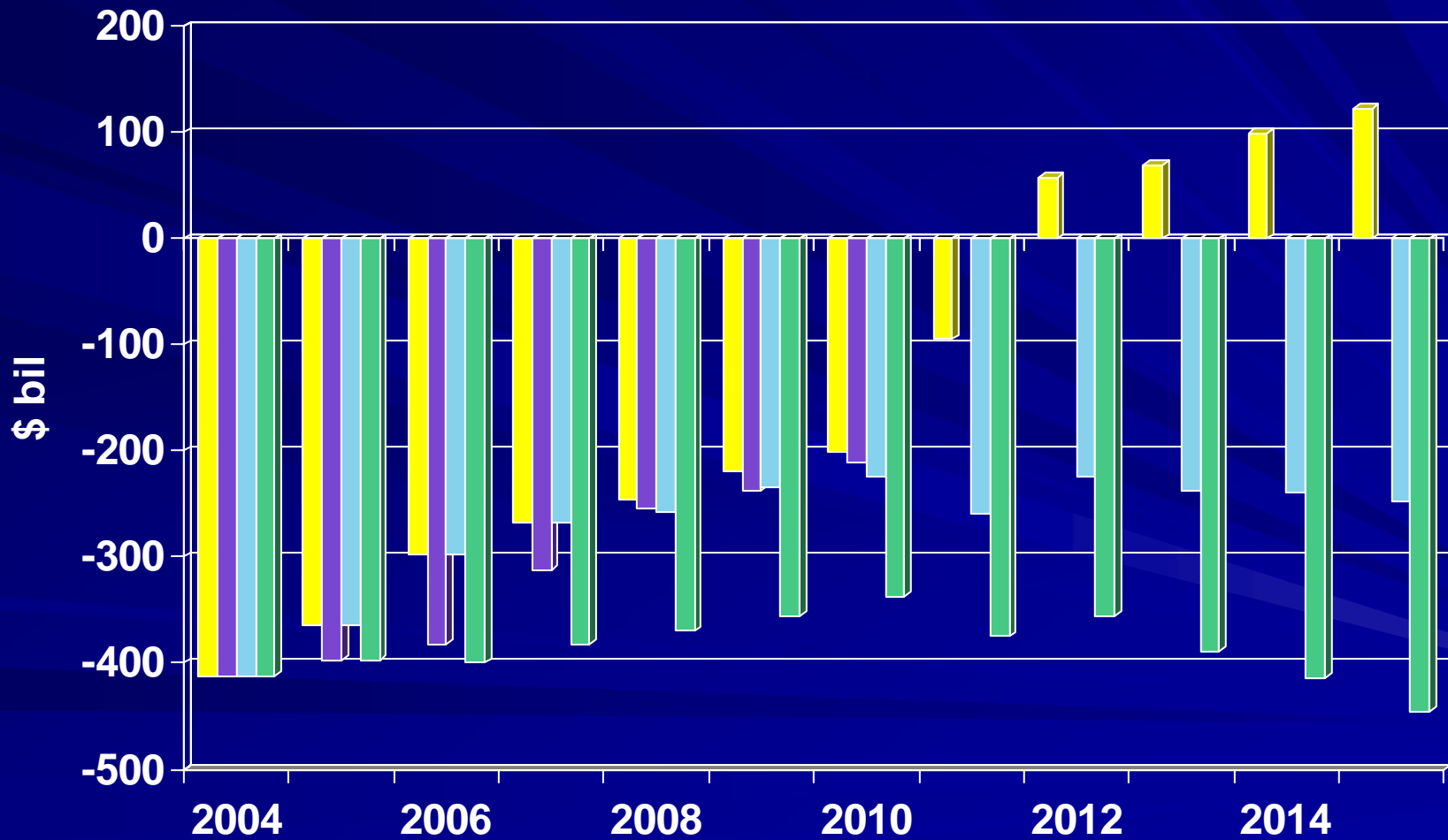
Projected Surplus/Deficit(-) Resulting Deficit w/ CBR Extended



Expected Additions to Deficit Omitted Items, \$ Billion

Fiscal Year	2006-15
Further Cost of Iraq War	-334
AMT Repair	-612
Additional Debt Service	-224
Resulting Deficit	-3,827

Projected Surplus/Deficit(-) Resulting Deficit w/Omitted Items



Magnitude of Future Deficit Reduction, \$ Billion

Fiscal Year	2004-13
Resulting Deficit	-3,776
House-passed Budget 2003	-1,021
Reconciliation	-2,775

Comparison to 2004 House Budget \$ Billion

Fiscal Year	2004-13
Reconciliation	-2,775
House-passed Reconciliation '03	-259
Multiple of House-passed	11

Comparison to 2004 Budget Reduction for Ag, \$ Billion

Fiscal Year	2004-13
House-passed Ag Reconciliation '03	-18.6
Agriculture's share of Reconciliation	7%
Future Agriculture Reconciliation	-193
Share of 2002 Farm Bill	44%

Policy Implications

- How to reduce farm program spending.
- WTO compliance by category (Amber, Blue, Green boxes).
- Fruit and vegetables, specialty crops, planting prohibition.

Policy Implications: How to Reduce Ag Spending

- Farm Commodity Programs are now direct payment programs.
- Few efficiencies to be gained as in 1990 Flex Acres 15% reduction in deficiency payments.
- Reductions likely to be in commodity (A/B/G), conservation direct payments (Green), crop insurance premium subsidies (de minimis).

Policy Implications: WTO Dimension

- Policymakers must consider trade negotiation proposals in deficit reduction.
- WTO agreement & limits may lead to changes in program design and form.
- Spending reductions will likely not address all WTO issues.

WTO Issues for Farm Bill

- Brazil-US Cotton Case
- Current US WTO Proposal
- US Commodity Program Variability
- Consumer-supported Commodities

US Domestic Program Classification: The Boxes

Exempt/Green Box	Program
Minimal, decoupled, commodity non-specific	AMTA pmts, disaster pmts
Resource retirement & environment	CRP, soil & water conservation, EQIP
Domestic food aid	Food Stamps, WIC
General services	ARS, ERS, APHIS, inspection & marketing, extension & cooperative, conservation operations

US Domestic Program Classification: The Boxes

AMS/Amber Box	Program
Market Price Support	Dairy, Sugar
Non-exempt direct payments	Market loans: LDPs, forfeitures, user pmts
Other non-exempt	Storage pmts, commod loan interest subsidies
Non-product Specific	Irrigation, grazing, crop ins, state credit, MLA/CCP
Blue Box: pmts under production limits	Deficiency payments in 1995

Brazil-US Cotton Case

- Step 2 ends 8-2006, Export credits reformed administratively.
- **WTO: Direct payments not Green Box: Fruit & vegetable planting prohibition**
 - More challenges?
 - Re-categorization to Amber, non-commodity specific? Exceed \$19.1B limit.
- **Commodity-specific limit exceeded with low world cotton prices: Issue for all marketing loan programs.**

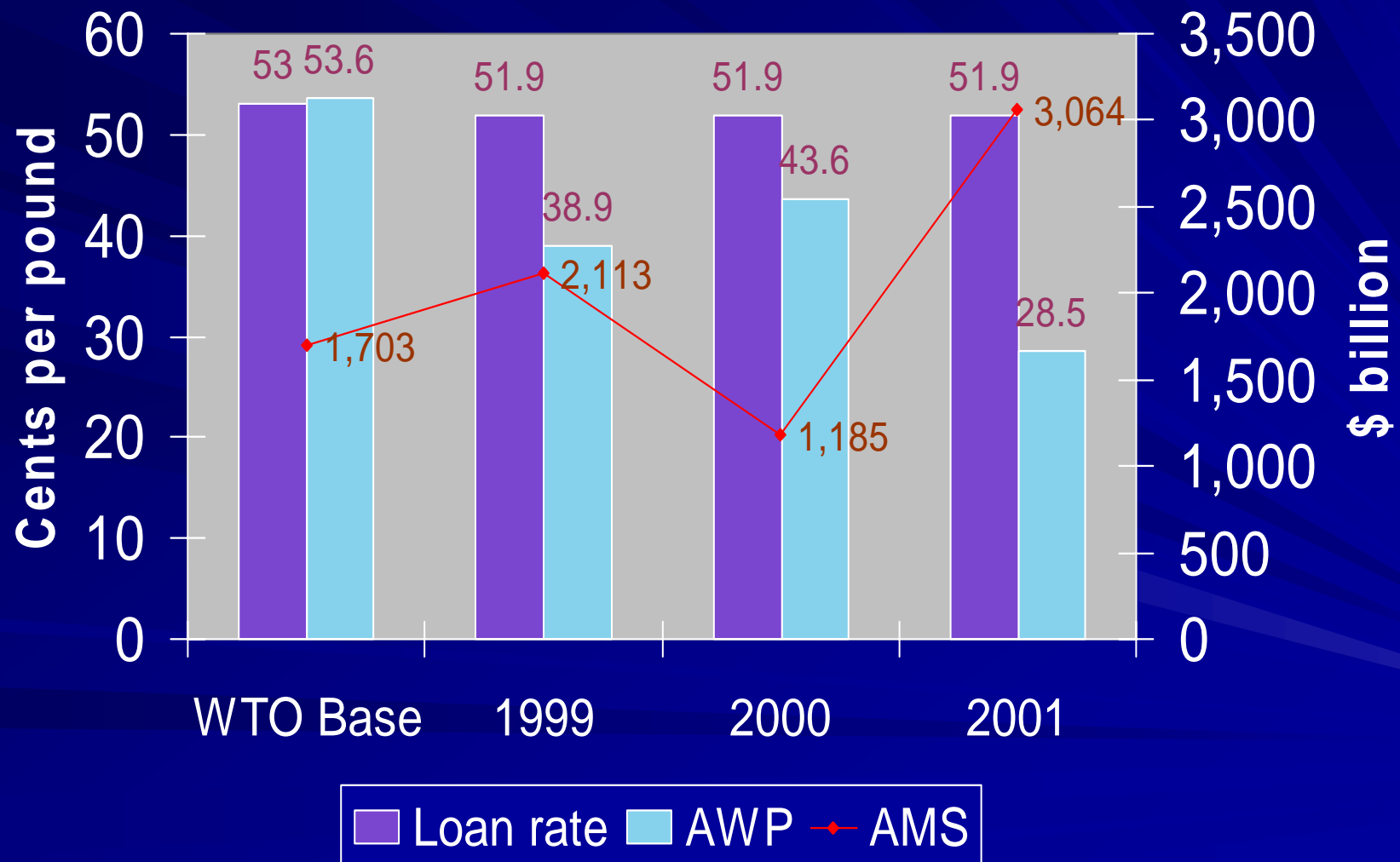
U.S. WTO Domestic Program Limitations & Commitments: Reported & Proposed, \$ billion

Billion US\$	Permitted	2001	Proposed
Total	49.1	21.5	22.6
Amber Box	19.1	14.4	7.6
De minimis			
Non-product specific	10	6.6	5
Product specific	10	0.2	5
Blue Box (CCP)	10	NA	5
Green Box	Unlimited	50.7	Unlimited

US Commodity Program Variability

- Payments determined by world price.
- FAPRI 12/2005 study: 42% chance US will exceed \$19.1B over 2006-14 period under continuation of 2002 Farm Bill.
- Counter cyclical payment \$7.6B maximum could exceed proposed \$5B Blue Box limit.

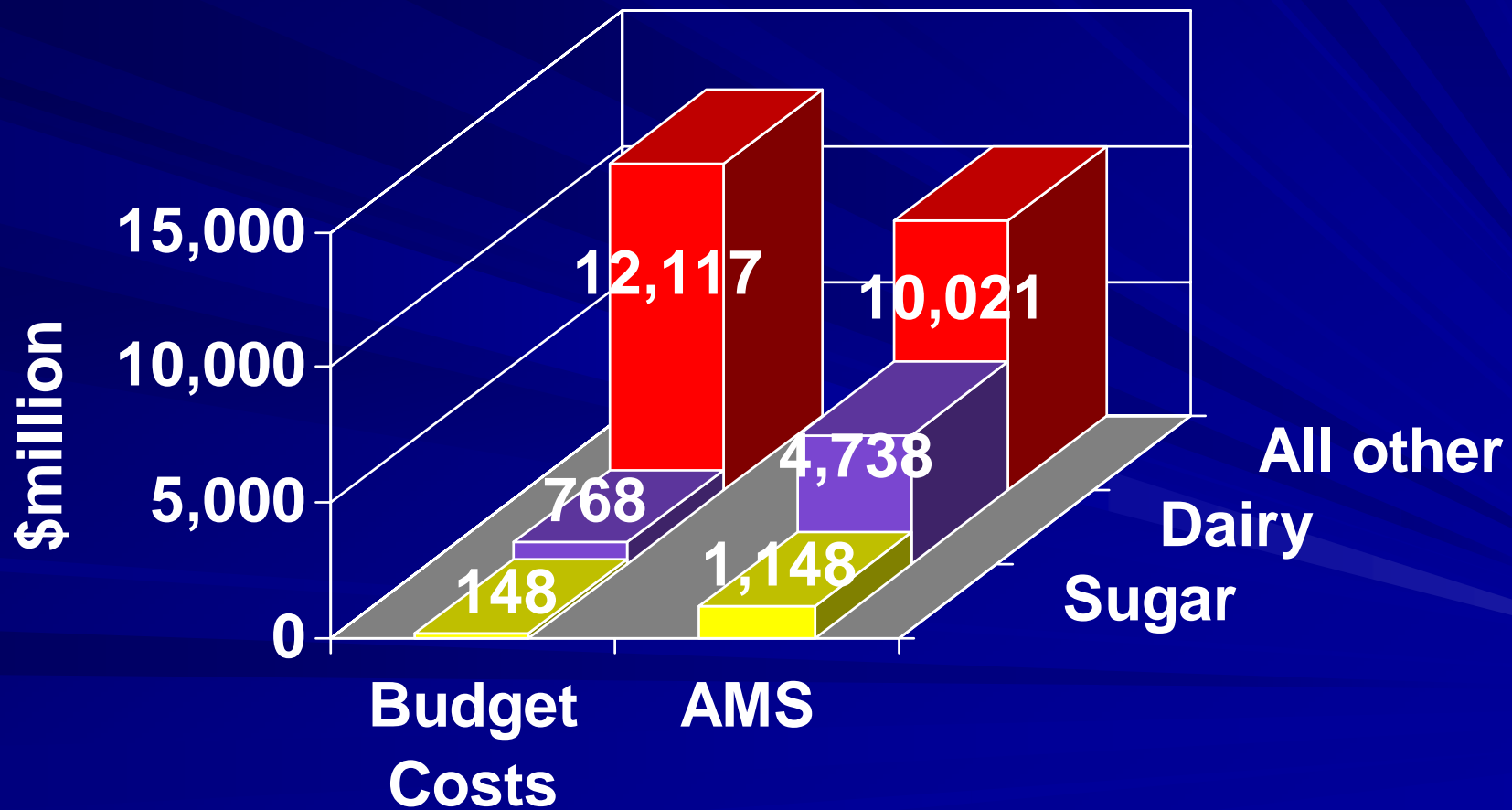
US Cotton Prices & Support



Consumer-supported Commodities

- Dairy and Sugar must be considered in AMS reduction, if not budget reduction.
- These are not just Market Access issues.
- Cutting AMS will have disproportionate impact on farm income vs. budget cuts.
- How reductions are made has broad policy implications.

Commodity Program Costs 1999-01 Avg



Specialty Crop Issues

- WTO panel ruled Direct Payments may not be Green Box because of fruit and vegetable planting prohibition.
- Specialty crop interests seek CCC funds in Ose-Dooley bill, mostly Green box. Likely accommodation in next farm bill.
- Shifting funds from program crops to specialty crops while reducing overall spending.

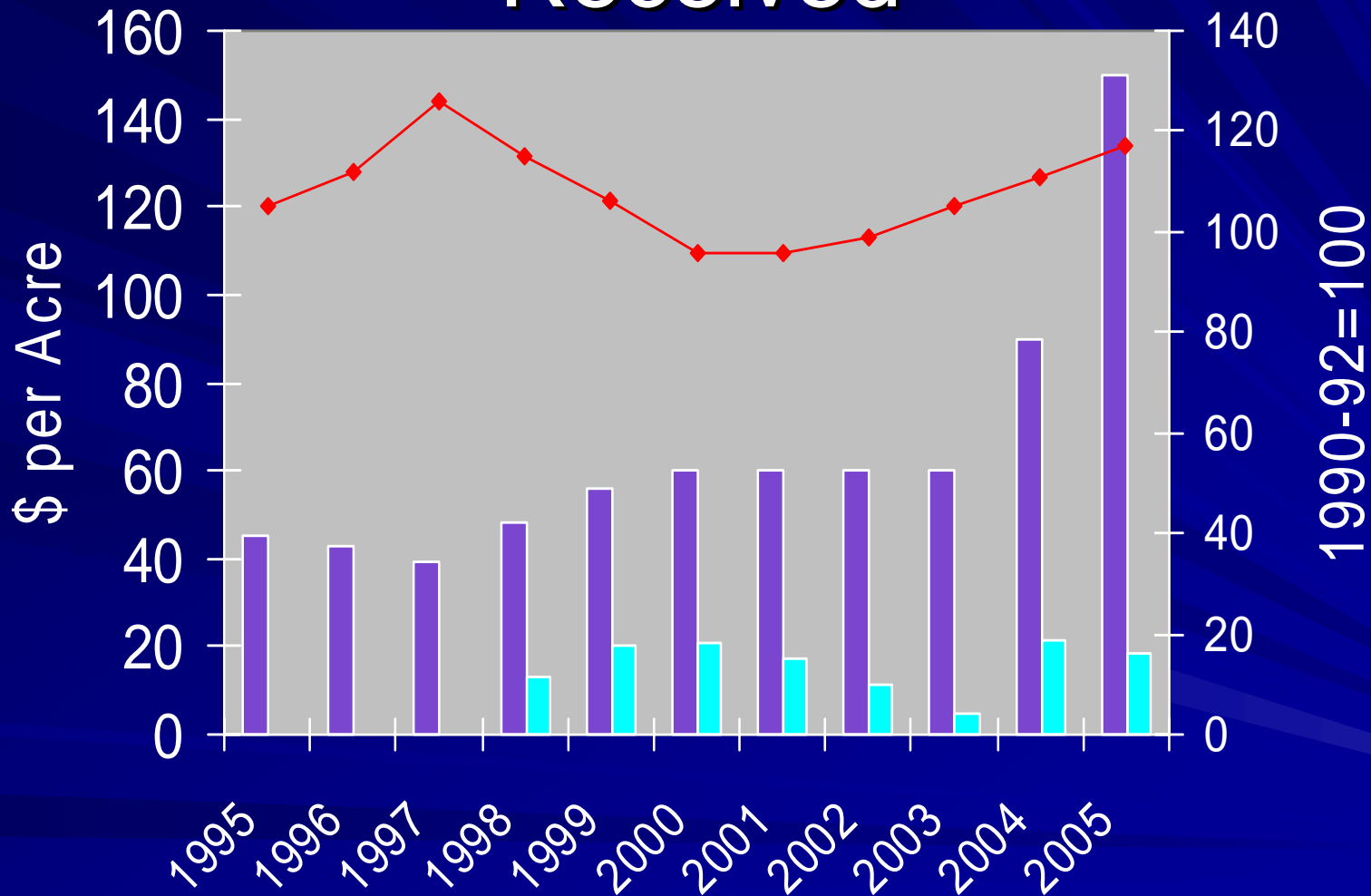
Land Values

- Values/ rental rates have kept rising through low price years 1998-2002.
- Farm bill continued policy that resulted in farmer incomes being higher when prices are low.
- International competitive issue: US vs. Brazilian soybeans—even though competitive on variable production costs, fixed costs, half attributable to land rents, result in unfavorable prices in export markets.

Real Estate Values vs. Prices Received, 1990-92=100



Real Estate Values vs. Prices Received



\$Change/A
 MLA/CCP
 Prices Received

1998 Land Values & U.S. Competitiveness: US\$/bu

1998 Data	US	Mato
US\$=1.21 Reals	Heartland	Grosso
Production	5.11	3.89
Variable	1.71	3.17
Fixed	3.40	0.72
Internal transport	0.43	0.85
Freight to Rotterdam	0.38	0.57
Price at Rotterdam	5.92	5.80

Source: Economic Research Service, USDA

2003 Land Values & U.S. Competitiveness: US\$/bu

2003 Data	North		Mato
US\$=3.5 Reals	Dakota	Iowa	Grosso
Production	4.59	6.28	3.25
Variable	2.90	2.70	2.66
Fixed	2.30	3.58	0.59
Freight to Rotterdam	1.17	0.93	1.33
Price at Rotterdam	5.76	7.21	4.57

Flaskerud, North Dakota State University, July, 2003

Summing Up

- Ag Committees' general inclination to extend 2002 Farm Bill will likely be prevented by budget & WTO requirements
- Deficit reduction pressure will likely continue for several years, continued cuts in agriculture programs as from 1981-95.
- Policymakers must be mindful of how cuts are effected to reflect WTO commitments.

Summing Up

- Price support levels (Amber) likely to be cut the most, CCP's (Blue) some, Direct payments (Green) less.
- Dairy and sugar programs will need to be addressed carefully.
- Specialty crops and planting prohibitions will likely need to be addressed.
- Commodity program variability may need to be addressed.

Summing Up

- Land values will likely decline, both as a result of reduced gov't assistance and to meet competitive challenge with other countries.
- Policy makers need to take care that deficit reduction changes do not result in greater land rents.