

The 2007 Farm Bill: Prospects for Change

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Executive Summary

- Most U.S. farm organizations and commodity groups are satisfied with the 2002 farm bill and are on record favoring its extension. However, a number of forces make some changes likely.
- With 93 percent of support going to producers of five commodities and over 60 percent of U.S. agriculture getting no support, many question the equity of our commodity programs. There has been widespread negative editorial comment in the media about current farm programs, and a number of new players are introducing new concepts and priorities into the 2007 farm bill debate.
- Rapid development of the U.S. ethanol industry has strengthened corn prices to the point that growers are unlikely to receive LDP or counter-cyclical payments for corn in the foreseeable future. This, together with strength in other commodity prices, is bringing some farm groups to look for alternative forms of government support such as revenue insurance or environmental/conservation payments.
- As the biofuels industry has expanded, many producers have lost enthusiasm for export markets. There is general support for our trade negotiators to secure larger market access overseas, but, failing this, they are hesitant to accept reductions in our own trade-distorting support. However, it is possible that future WTO cases might find all of our marketing loans, LDPs and CCPs to be inconsistent with current international trade law, just as occurred with cotton.
- The November 2006 elections gave the Democratic Party a majority in both chambers of the U.S. Congress. The new chairs of the Senate and House agriculture committees are from Iowa and Minnesota, respectively. They are likely to be more responsive to corn and soybean growers than their Southern predecessors who put greater priority on supporting cotton and rice.
- While impossible to predict, past experience suggests that one might expect greater support from a Democratically-controlled Congress for ethanol and biofuels, environmental and conservation programs. Nutrition programs, food safety, immigration reform, a higher minimum wage, country-of-origin labeling of meat, mandatory national animal I.D. and tighter animal welfare rules. One might expect less support for trade agreements (especially if they lack strong labor and environmental provisions) and for relaxation of endangered species rules.



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2002 Farm Bill Had 10 Titles

- I. Commodity Programs
- II. Conservation
- III. Agricultural Trade and Aid
- IV. Nutrition Programs
- V. Farm Credit
- VI. Rural Development
- VII. Research
- VIII. Forestry
- IX. Energy
- X. Miscellaneous

The Changing Landscape

- Rapid growth of ethanol industry (with a lot of subsidies) with resulting increase in price of corn
- Change in leadership of Congress as a result of recent election
- Lack of interest in ag exports; growing general protectionist and anti-outsourcing sentiments in U.S.
- Suspension of Doha Round and threat of more litigation in WTO
- Unprecedented anti-farm program editorial comment in newspapers across the country
- Numerous groups proposing alternatives to present farm programs, including the Administration

Most Farm Organizations Happy with 2002 Farm Bill

- Majority of producers of supported commodities are happy with the support they have received from the programs authorized in the 2002 Farm Bill.
- Most U.S. farm organizations are on record as favoring extension of the 2002 Farm Bill unchanged.
- Some organizations would support change if we get a Doha Round Agreement that significantly increases market access overseas.
- Farm organizations are generous campaign contributors, and Congressional ag committees do listen to them.

Current Farm Supports Are Seen by Many as Inequitable

- 93% of all support goes to 5 commodities.
- Over 60% of US agriculture receives no support, and this part is not perceptibly less profitable than that which does.
- Southern crops (rice, cotton and sugar cane) receive much more support per acre and per farmer than Northern crops (corn, soybeans and wheat).
- 16% of payments go to rural residence farms.

Farm Programs Not Achieving Objectives

- Low farm family income
 - Most payments go to larger producers whose family incomes & wealth are well above average
 - Low income farmers receive very little from programs
- Variability of farm income
 - Farmers have income averaging, cash accounting & futures markets
- Increase competitiveness
 - Capitalization of payments into land values raises U.S. cost of production and undercuts international competitiveness
 - Public investments in agricultural research declining
- Food security
 - Not a credible problem when U.S. ag grows 1/3 more than we use domestically
- Rural development
 - Payments facilitate consolidation; don't create more jobs

U.S. Farmers' Changing World View

- Losing confidence in their international competitiveness (benefits of Uruguay Round Agreement on Agriculture (URAA) oversold)
- Think URAA was unfair in that allowed EU and Japan much higher trade-distorting support.
- See world market as a zero-sum game: They don't recognize potential growth in LDC markets
- Reluctant to accept that being a large exporting country constrains our freedom of action in domestic policy making.

If “Successful,” WTO Ag Trade Negotiations Might:

- Eliminate all forms of ag export subsidies (would require US to change food aid rules)
- Increase market access by reducing tariffs (highest the most), and if exceptions are allowed, require larger minimum market access (as percent of domestic use)
- Reduce trade-distorting domestic subsidies (i.e. those linked to production of specific commodities)
 - The US has proposed complete elimination in 3 phases over 15 years.
 - It may be possible to move counter-cyclical payments to the Blue Box?
- Accelerate economic growth in low income countries where most market growth potential is.

Doha Ag Politics

- U.S. farm organizations will support a Doha Round Agreement that significantly reduces trade-distorting domestic subsidies *only* if the Agreement includes significant increases in market access.
- Bush Administration has done a poor job of communicating to U.S. farmers its WTO offer.
- The next farm bill will be likely written in mid-2007 at about the same time as President Bush's fast-track negotiating authority expires.
- Many Democratic victors oppose liberal trade

Ethanol Development

- Farmers and politicians are more enamored with growth in ethanol and other biofuels industry than with exports.
- Ethanol industry growing rapidly with large subsidies, mandated use, tax exemptions, and protection from imports from lower-cost suppliers
 - ethanol from sugar cane cheaper than from corn
- This increased industrial demand for corn has resulted in smaller exports and higher prices.
- Higher feed grains prices reducing profitability of U.S. livestock and poultry industries.

Higher Commodity Prices

- Higher commodity prices are reducing projected future cost of current farm programs if they are continued unchanged in 2007 Farm Bill.
 - This becomes the “budget baseline” against which the cost of alternative policies will be evaluated.
- Higher projected corn price has the National Corn Growers Association looking already at revenue insurance as an alternative to present farm program structure.

Administration's Farm Bill Priorities Consistent with Its WTO Proposal

- Secretary Johanns emphasizes:
 - Equity
 - Predictability
 - WTO compliant
 - Advocates shifting farm support from trade-distorting (“amber box”) to non-trade-distorting (“green box”).
 - Emphasizes threat of more litigation against other commodities that use marketing loans, LDPs and countercyclical payments.

2002 Farm Bill Will Be Reopened

- Need to change marketing loan, LDP and CCP provisions for cotton (and for other program crops, e.g. corn & soybeans, or risk losing them in future WTO litigation and not getting anything for them)
- The fruit and vegetable production exclusion in qualifying for direct payments needs to be changed to avoid them being counted against amber box cap.
- When NAFTA is fully implemented on Jan. 1, 2008, Mexico will get free access to US sugar market. The U.S. sugar program will have to change.

Alternatives to 2002 Farm Bill

- Environment/conservation payments
- Revenue insurance
- Direct payments
- Other?

Democratic Control of Congress

- New Agriculture Committee Chairs
 - Senate – Tom Harkin (Iowa)
 - Pro conservation and nutrition programs
 - Corn and ethanol
 - Former advocate of mandatory supply controls
 - House – Collin Peterson (Minnesota)
 - Fiscal conservative, but not with respect to ag supports
 - Sugar beets and dairy
 - Last year introduced a bill to extend 2002 Farm Bill
- Replaced Southerners with strong rice and cotton interests (but both remain on the ag committees)

Expect Stronger Support for:

- Ethanol and other biofuels
- Conservation & environmental programs
- Sugar, dairy and wheat supports
- Nutrition and food safety programs
- Immigration reform
- Higher minimum wage
- Country of Origin Labeling of Meats
- Mandatory national animal I.D. system
- Doing something about global warming
- Tighter animal welfare rules

Expect Less Support for:

- Trade agreements (especially if they lack strong labor and environmental provisions)
- Rice and cotton supports
- Relaxing endangered species rules

Conclusions

- A lot of new voices will be part of farm bill debate, but the ag & commodity organizations will dominate.
- The election likely reduced the Bush Administration's role in writing the next farm bill.
- The agriculture committees of Congress are most likely to draft farm bills with commodity provisions quite similar to those in the 2002 Farm Bill, with some tinkering with target price levels and more money in conservation payments.
- The House of Representatives has so few members with rural interests that radical change could occur when the bill comes to the floor of the House for action. This creates the possibility for more fundamental change.