2002 U.S. Farm Bill Revisited: Impacts, Implications of the WTO Ruling and the U.S. Budget

12th Annual Farming for Profit!

Moose Jaw, SK, Canada

June 27, 2005

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Overview

- Program Spending & Summary of FSRIA Provisions
- Implications of Budget Reconciliation
- Implications for WTO Obligations
- Case: U.S. Farm Bill, Canadian Cattle Feeding, and BSE

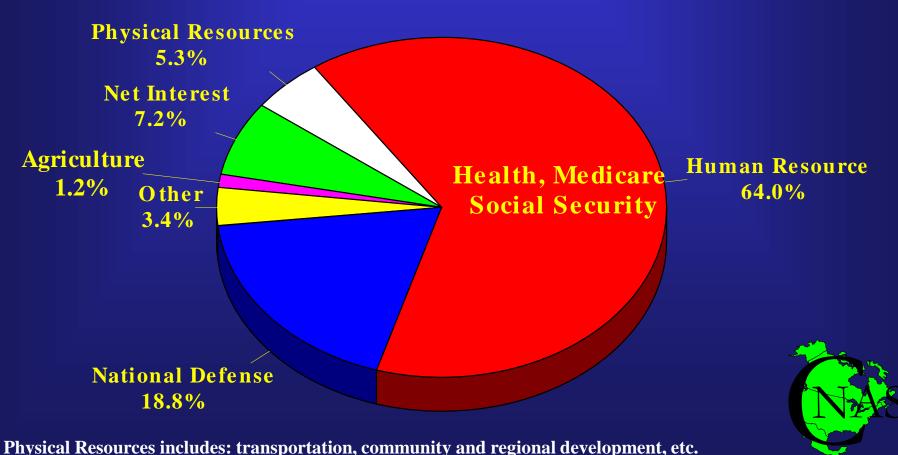


U.S. Farm Program Spending



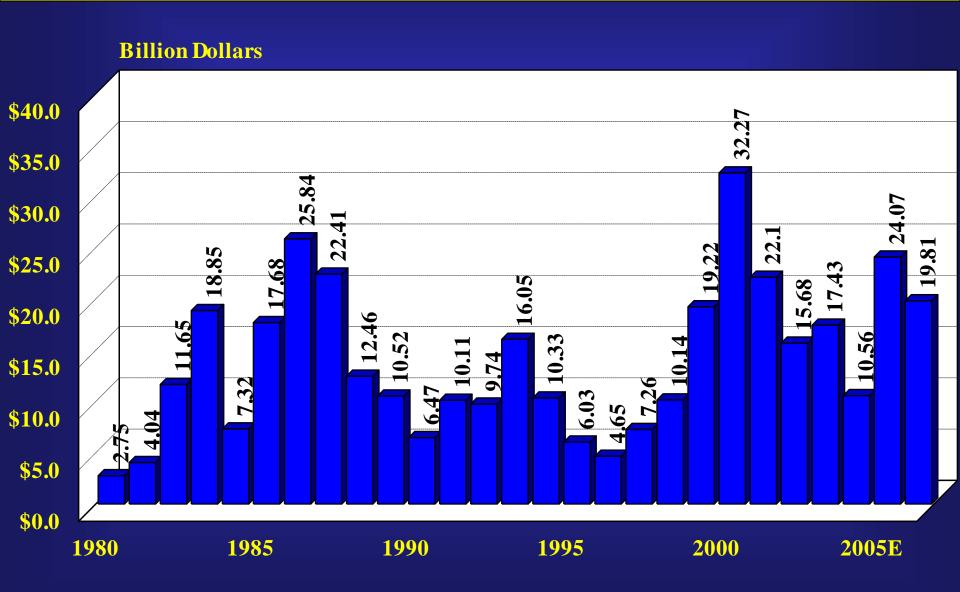
U.S. Federal Budget Outlays by Function, FY 2005

Total Estimated Outlays: \$2.48 Trillion



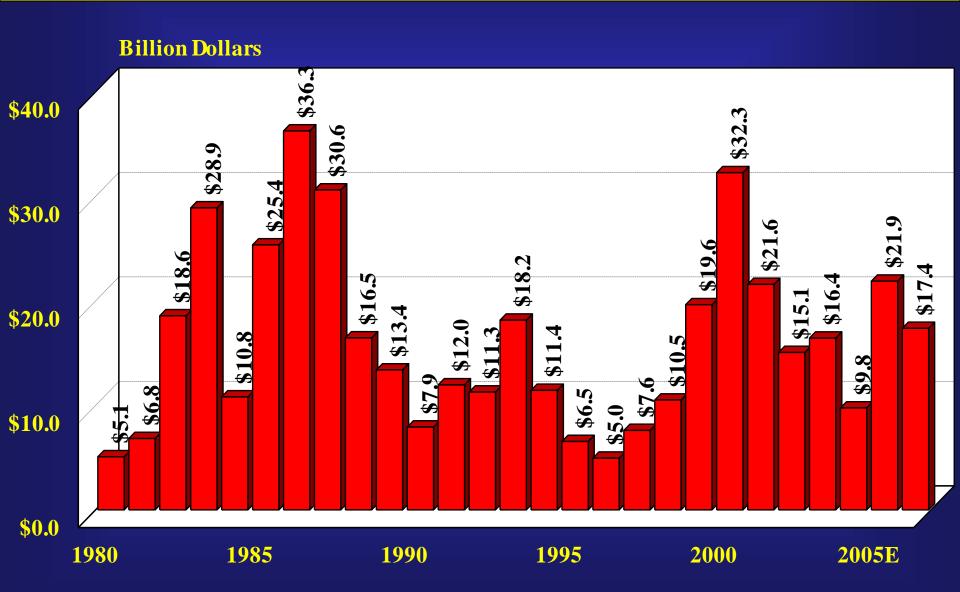
Physical Resources includes: transportation, community and regional development, etc. Source: Budget of the U.S. Government; www.whitehouse.gov/omb/budget/fy2003/pdf/hist.pdf

CCC Net Outlays, FY 1980 – 2006E



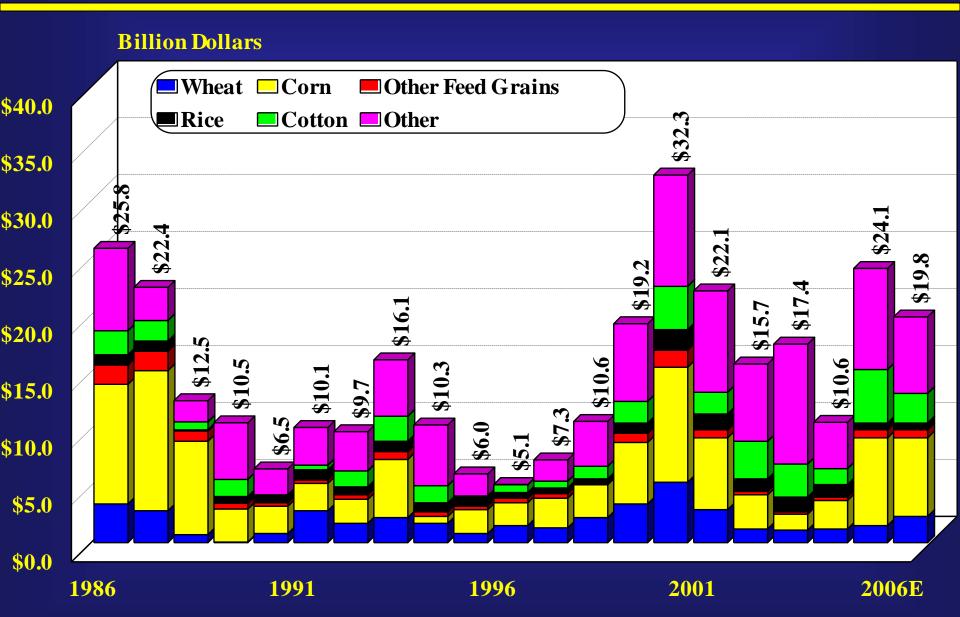
Source: Commodity Credit Corporation Budget, USDA

CCC Net Outlays, (2000 \$) FY 1980 – 2006E



Source: Commodity Credit Corporation Budget, USDA; Bureau of Economic Analysis, U.S. Dept. of Commerce

CCC Net Outlays, By Commodity FY86 – 06E



Source: Commodity Credit Corporation Budget, USD

FSRIA Provisions



Summary of Provisions

- FSRIA Signed May 13, 2002
- Effective for Crop Years 2002-07
- New Spending from \$45.1-\$51.7 Billion (2002-2007)
- Major Increases in Environmental, Conservation, & Energy
- Institutionalizes Previous Ad-hoc Funding for Commodity Programs



FSRIA Titles

- Title I: Commodity Programs*
- Title II: Conservation*
- Title III: Trade*
- Title IV: Nutrition
- Title V: Credit
- Title VI: Rural Development
- Title VII: Research & Related Matters
- Title VIII: Forestry
- Title IX: Energy
- Title X: Miscellaneous*



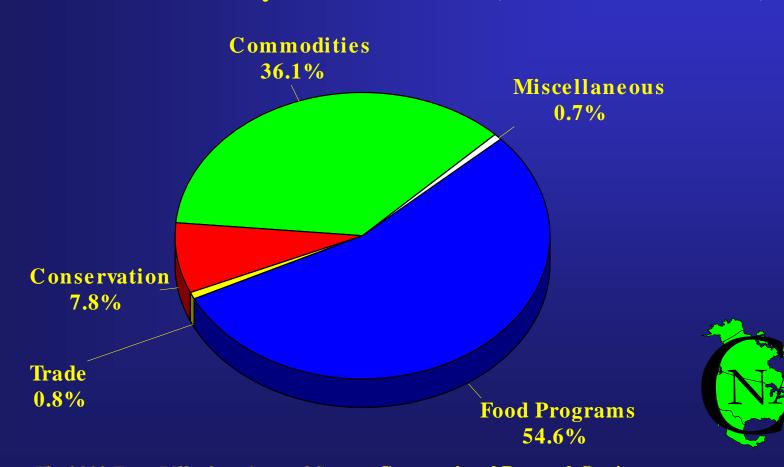
Farm Bill Spending, 2002-07

- Total Cost: \$273.9 Billion
- Commodity Programs: \$98.9 Billion
- Conservation: \$21.3 Billion
- Food & Nutrition: \$149.6 Billion
- Total Over Baseline: \$51.7 Billion
- Average Annual Cost: \$8.6 Billion (over baseline)



Farm Bill Program Spending by Title, Budget Authority, FY 2002-2007

Total Estimated Outlays: \$273.9 Billion (March 2002 Baseline)



Source: The 2002 FarmBill: Overview and Status, Congressional Research Service

Excludes funding for discretionary programs which is provided through annual appropriations.

FSRIA Provisions

- Commodity Programs-Sources of Payments to Producers
 - **Direct Payments (AMTA/PFC) - Continuation**
 - Marketing Loan Gain (MLG) <u>or</u> Loan Deficiency Payments (LDP) -Continuation
 - Initiated New Counter-cyclicalPayments (CCP) reinstates TargetPrices*



FSIRA Provisions (cont.)

- Soybeans & Peanuts Covered Under All Payment Provisions
- Dry Peas, Lentils, and Chickpeas now Covered under Marketing Loan Program
- Required Country of Origin Labeling at Retail for Meats, Seafood, Produce, Peanuts (MCOOL Provisions Postponed for all but Seafood)
- CCP (counter-cyclical payments) for Dairy farmers



U.S. Loan Rates

Crops	1996 Farm Bill	2002 Farm Bill	2002 Farm Bill
	2001 Rate	2002 – 03 Rate	2004 – 07 Rate
Corn (\$/bu)	1.89	1.98	1.95
Sorghum (\$/bu)	1.71	1.98	1.95
Wheat (\$/bu)	2.58	2.80	2.75
Upland Cotton (\$/lb)	0.5192	0.52	0.52
Rice (\$/cwt)	6.50	6.50	6.50
Barley (\$/bu)	1.65	1.88	1.85
Oats (\$/bu)	1.21	1.35	1.33
Soybeans (\$/bu)	5.26	5.00	5.00
Minor Oilseeds (\$/lb)	0.093	0.096	0.093
Peanuts (\$/ton)	N/A	355.0	355.0
Dry Peas (\$/cwt)	N/A	6.33	6.22
Lentils (\$/cwt)	N/A	11.94	11.72
Small Chickpeas (\$/cwt)	N/A	7.56	7.43

Wheat loan rates will be announced by class: hard red spring, hard red winter, soft red winter, soft white wheat, and durum.

FSIRA Provisions (cont.)

- Wool, Mohair, & Honey Get Marketing Loan Payments
- Conservation Reserve Program (CRP)
 Acreage to Expand from 36.4 ma to 39.2
 ma
- Environmental Quality Incentive Program (EQIP): 6 fold increase, \$400 million in 2002 increasing to \$1.3 billion in 2007

Farm Bill Payments

- Direct Payments = Payment rate x (Base acres x .85) x Farm Program Yield
- Counter-cyclical Payments (CCP)
 - Secretarial Action Required to Implement
 Target price
 - -Effective price (Higher of Market price or loan rate plus Direct payment rate)
 - **Counter-cyclical payment rate (\$/unit)**
- CCP = CCP rate x (Base acres x .85) x Updated Farm Program Yield

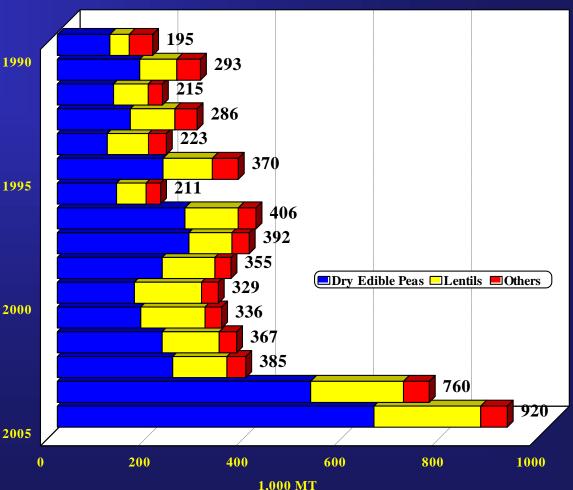


Potential Impacts of Farm Bill

 U.S. Dry Pea and Lentil Planted Area Expected to Rise

- Marketing LoanProgram
- Favorable Lentil
 Prices/Falling Alternative 1995
 Crop Prices
- Relatively Low InputCosts
- Long-term Benefits from including in CropRotation
- Most Growth in ND, WA, MT

U.S. Peas and Lentil Production

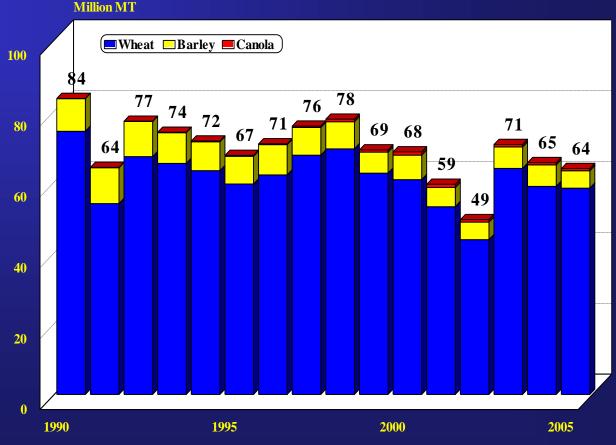


Source: Vegetables and Melons Outlook, ERS, USDA

Potential Impacts of Farm Bill

- Wheat Production up from Recent Low in 02/03 MY
- Barley Production down from Highs of Early 1990's – Less than ½ of CN
- From near Zero in 90 but has fallen since 2001 Very Small compared to Canada

U.S. Wheat, Barley, and Canola Production



Source: Vegetables and Melons Outlook, ERS, USDA

Potential Impacts of U.S. Budget Reconciliation

- Research by TAMU AFPC in early 2005
- Impacts are dependent on which parts of the program are adjusted
- Reducing Direct Payments (de-coupled) would have the greatest impact on income because fixed
- Counter-Cyclical and Loan Deficiency/ Marketing Loan Gain Payments are not fixed but based on market conditions
- Simulation results show that loan rate reductions would be least harmful to producers
- Cuts to CRP were not analyzed

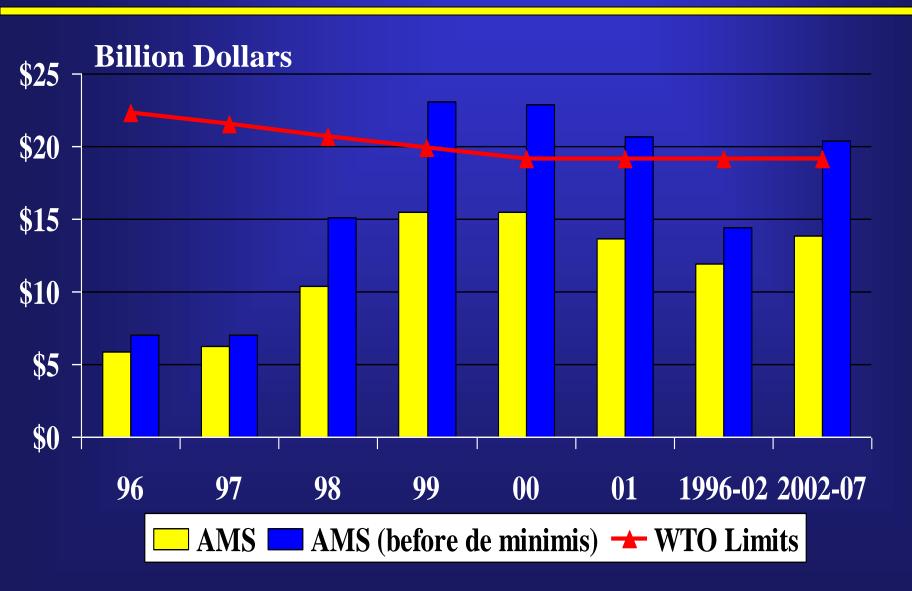
Implications of WTO Obligations and the Cotton Case



WTO Issues/Impacts

- **▶** Direct payments Green Box (don't count)
- ► MLGs/LDPs commodity specific Amber Box
- > CCPs noncommodity specific Amber Box
- > Amber Box limit is \$19.1 billion annually
- Noncommodity specific support is not included when calculating the AMS as long as it is <5% of the value of agricultural production
 - These amber box payments are referred to as "de minimis" (trifling amount)
 - >If >5% then full amount counts

WTO and the New Farm Bill



Aggregate Measure of Support (AMS) refers to the \$19.1 billion annual spending cap on Amber box payments. Source: FAPRI

WTO Issues/Impact (Continued)

- Farm Bill Adjustment Authority Related to Doha Round (WTO) Compliance
- Potential for Year 1 cut in support ceiling of 20%, from \$49.1B to \$39.3B
- ➤ Will have to Adjust Export Credit Guarantees to Comply w/6 Month Maximum
- Changes to Some Programs to Make More "Green"

Implications of WTO Cotton Case

- Findings against U.S. cotton-related programs
- Step 2 of Cotton Program Likely Gone
- Restrictions on what crops can be planted on program acreage (fruits/vegis) may be lifted
- Findings against Export Credit Guarantee
 Program as well Some Changes as Early as
 Next Month
- These Findings will be considered during Budget Reconciliation and for 2007 Farm Bill

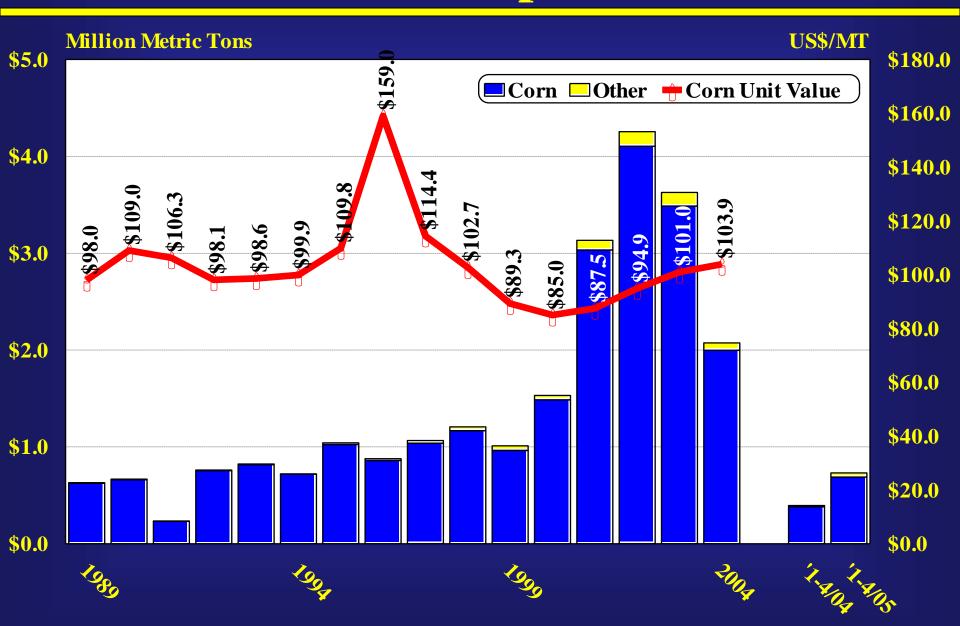
Case Example: Beef and Cattle



U.S. Farm Bill, Canadian Cattle Feeding, and BSE

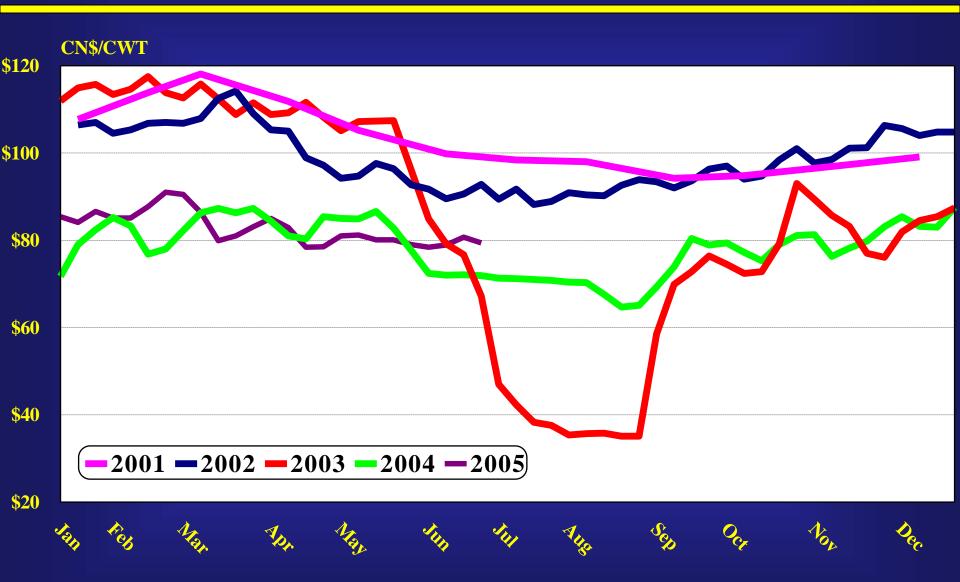
- Investment in Prairie Province Beef Industry
- Availability of Cheap U.S. Corn and Export of this Corn to the Canadian Cattle Feeding Industry
- Concern over the Potential Impacts of MCOOL
- Dynamics Changed with Discovery of BSE
- Ban on Canadian Cattle Exports to U.S. and Low Canadian Prices Led to More Investment in Prairie Beef Industry
- Canadian Industry May be Stronger when Normal Trade Resumes But With Uneven Benefits

U.S. Feed Grain Exports to Canada



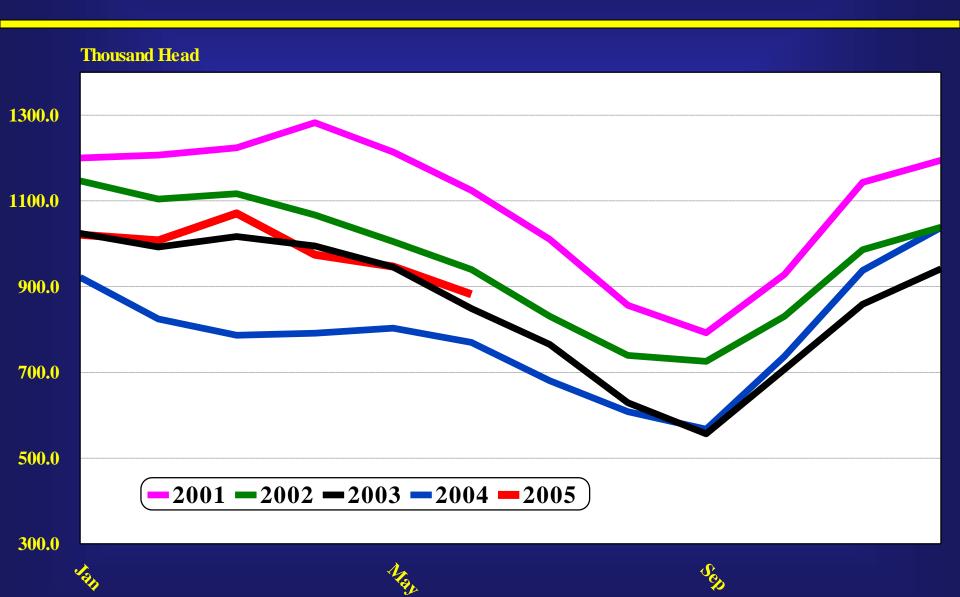
Source: U.S. Trade Internet System, www.fas.usda.gov/ustrade

Alberta Direct Fed Steer Price, Jan 01 – Jun 05



Source: Alberta Agriculture, Food and Rural Development, www.agric.gov.ab.ca 2001 are monthly averages, source CANFAX, calculated by LMIC

Alb/Sask Cattle on Feed, Jan 01 – Jun 05



Source: CanFax, www.canfax.ca

Summary and Conclusions

- U.S. Farm Spending, while High, is Low Compared to Rest of U.S. Budget
- Farm Spending Less than Mid-80s in Real Terms
- Most of Farm Bill Spending in Food/Nutrition Programs – 36% in Commodity Support
- Direct Payments are Green Box; MLG/LDP and CCP are Amber Box
- Inclusion of LDP for Lentils/Peas Spurred the Greatest Shift in Production
- Budget Reconciliation Impacts are Unclear

Summary and Conclusions (Continued)

- Doha Round, Cotton Case, and Budgetary Concerns to Impact Next Farm Bill
- Inclusion of Fruits and Vegetables in the Program and/or as Crop Alternative for Program Acres???
- MCOOL Less of a Threat than BSE
- Canadian Cattle Industry Likely Stronger Post-BSE but Cow/Calf Producers will Need Greater Recovery Time
- U.S. Farm Bill Impacts on Canada Appear to be Less than Other Factors such as BSE or Canadian Policy Changes