

**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

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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**

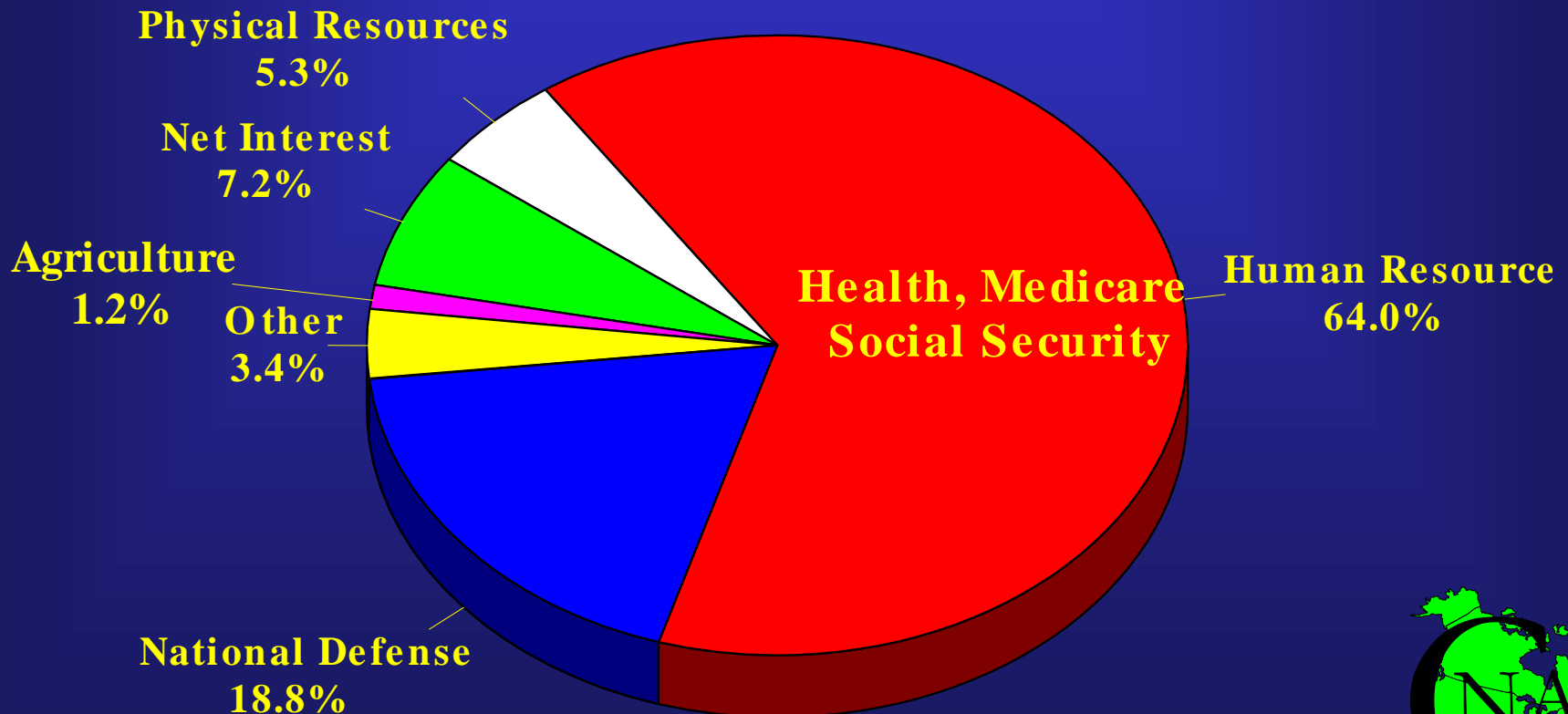


U.S. Farm Program Spending



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

Total Estimated Outlays: \$2.48 Trillion

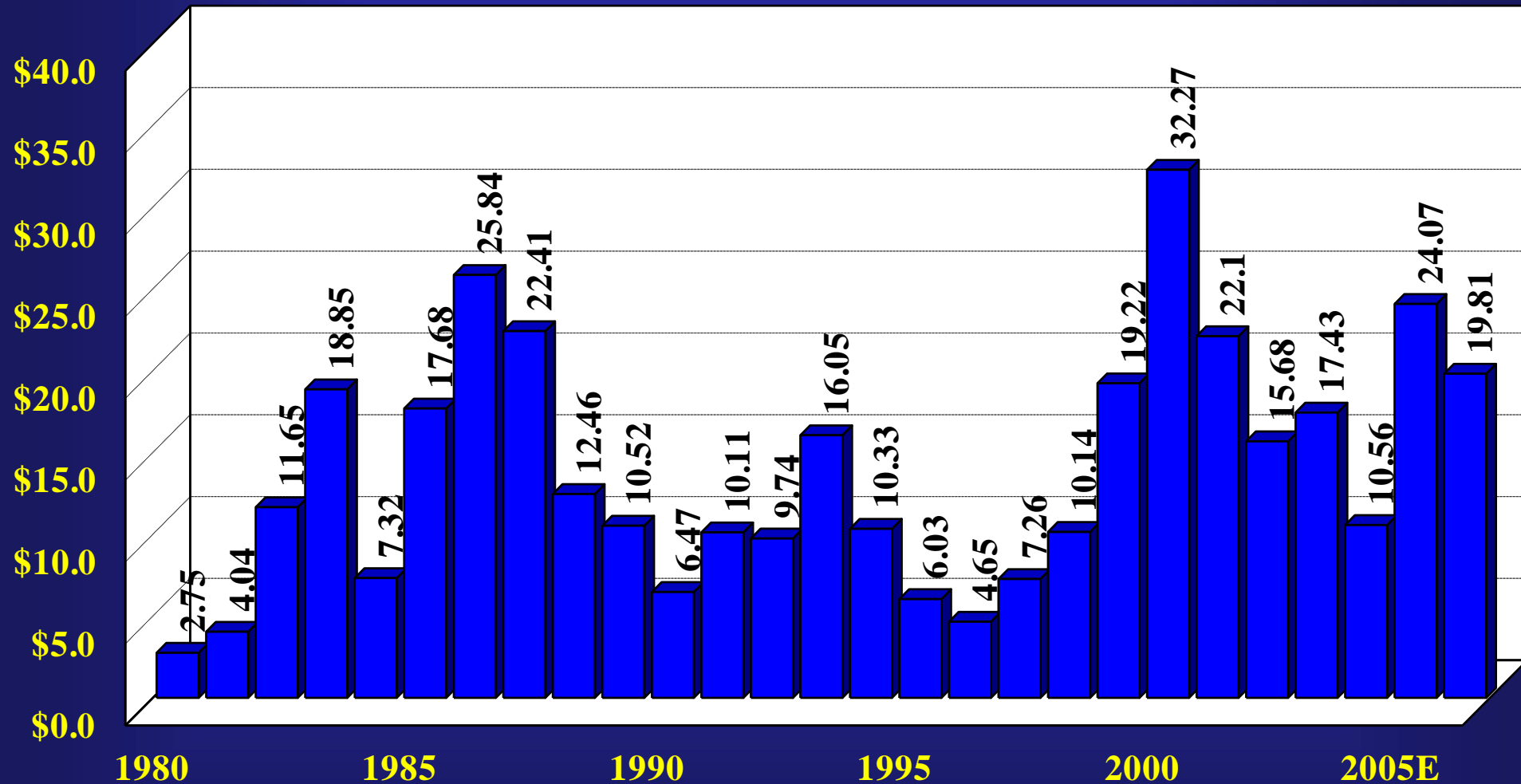


Physical Resources includes: transportation, community and regional development, etc.

Source: Budget of the U.S. Government; www.whitehouse.gov/omb/budget/fy2003/pdf/hist.pdf

CCC Net Outlays, FY 1980 – 2006E

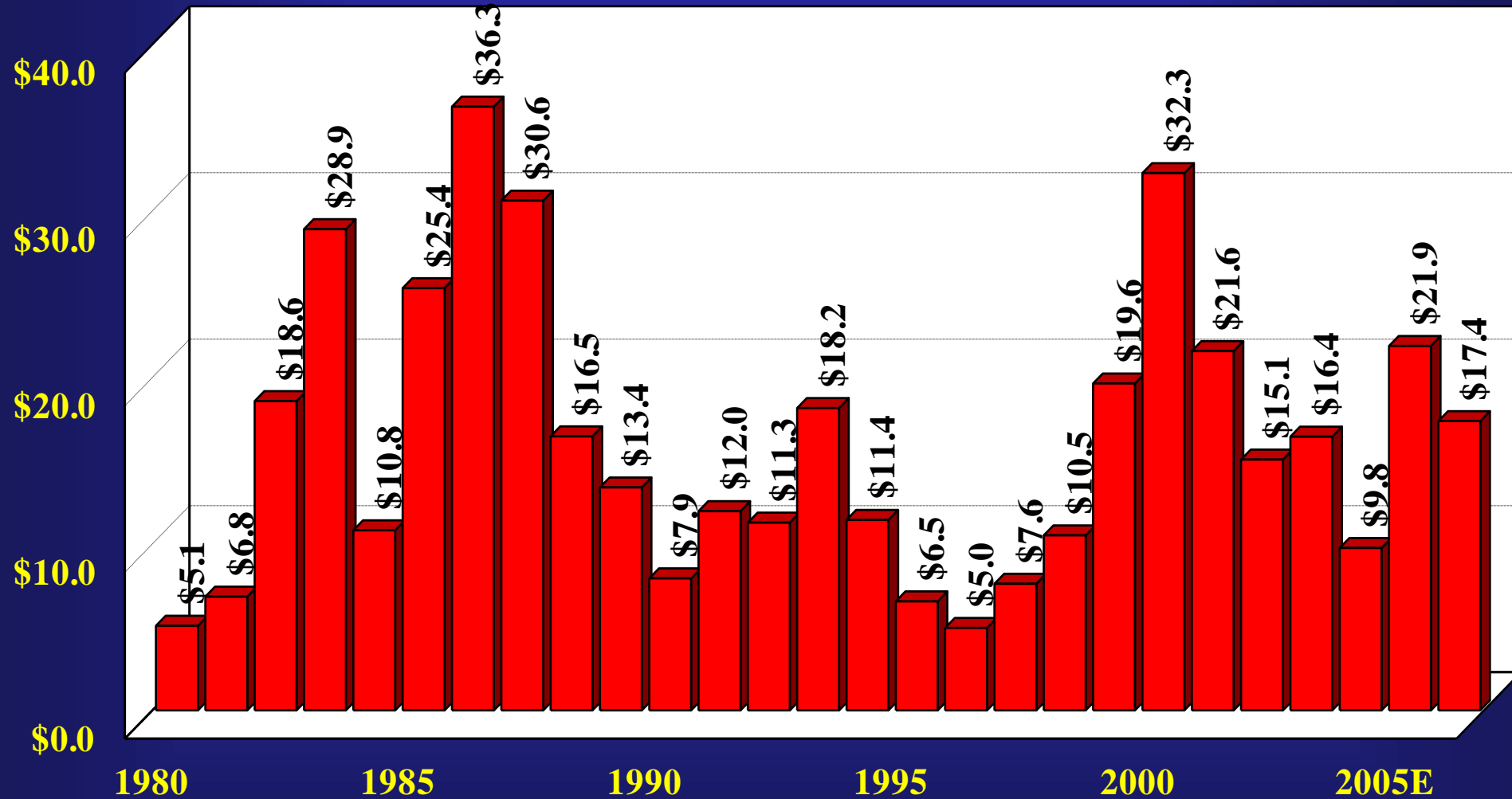
Billion Dollars



Source: Commodity Credit Corporation Budget, USDA

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

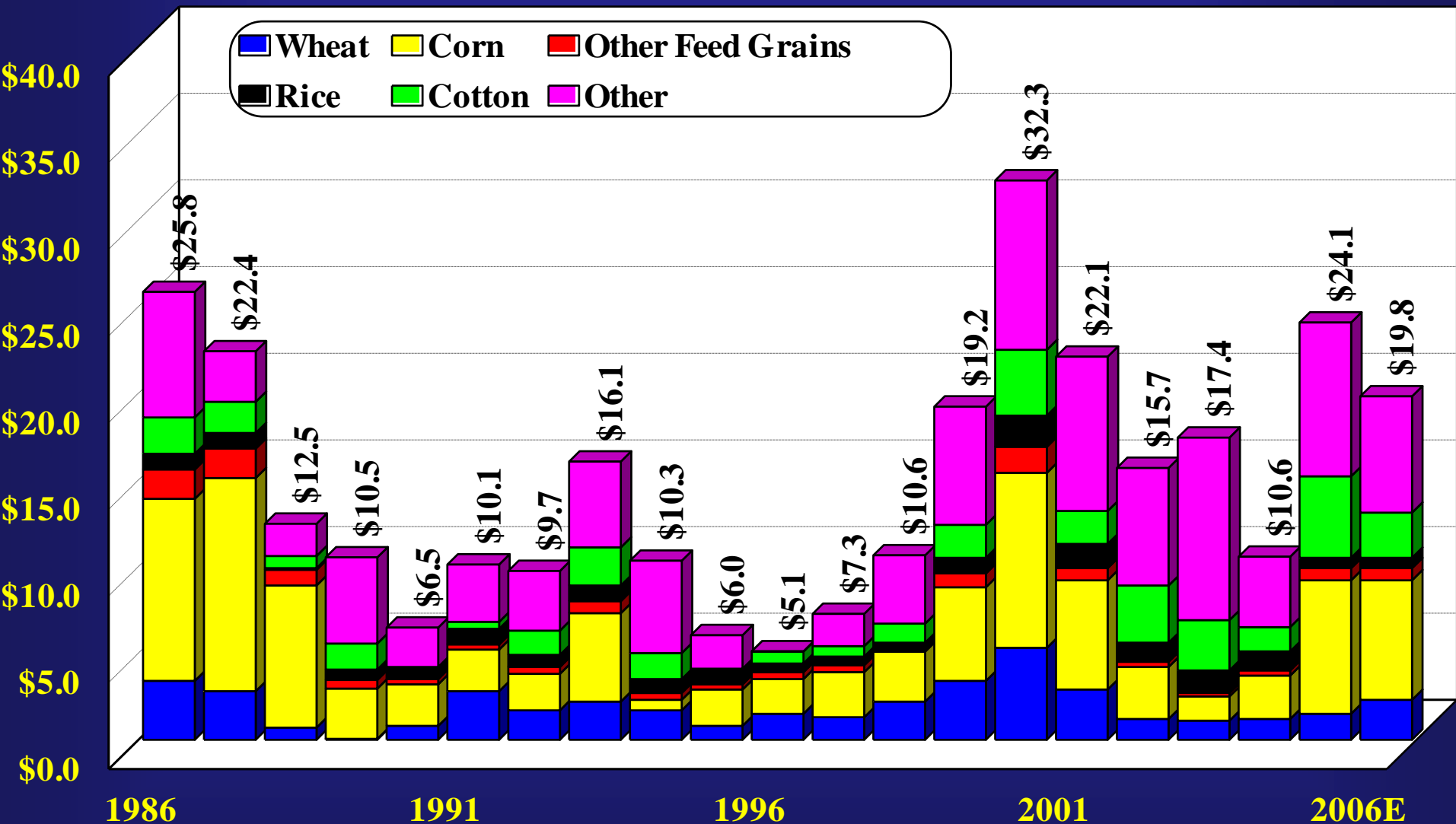
Billion Dollars



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

CCC Net Outlays, By Commodity FY86 – 06E

Billion Dollars



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***



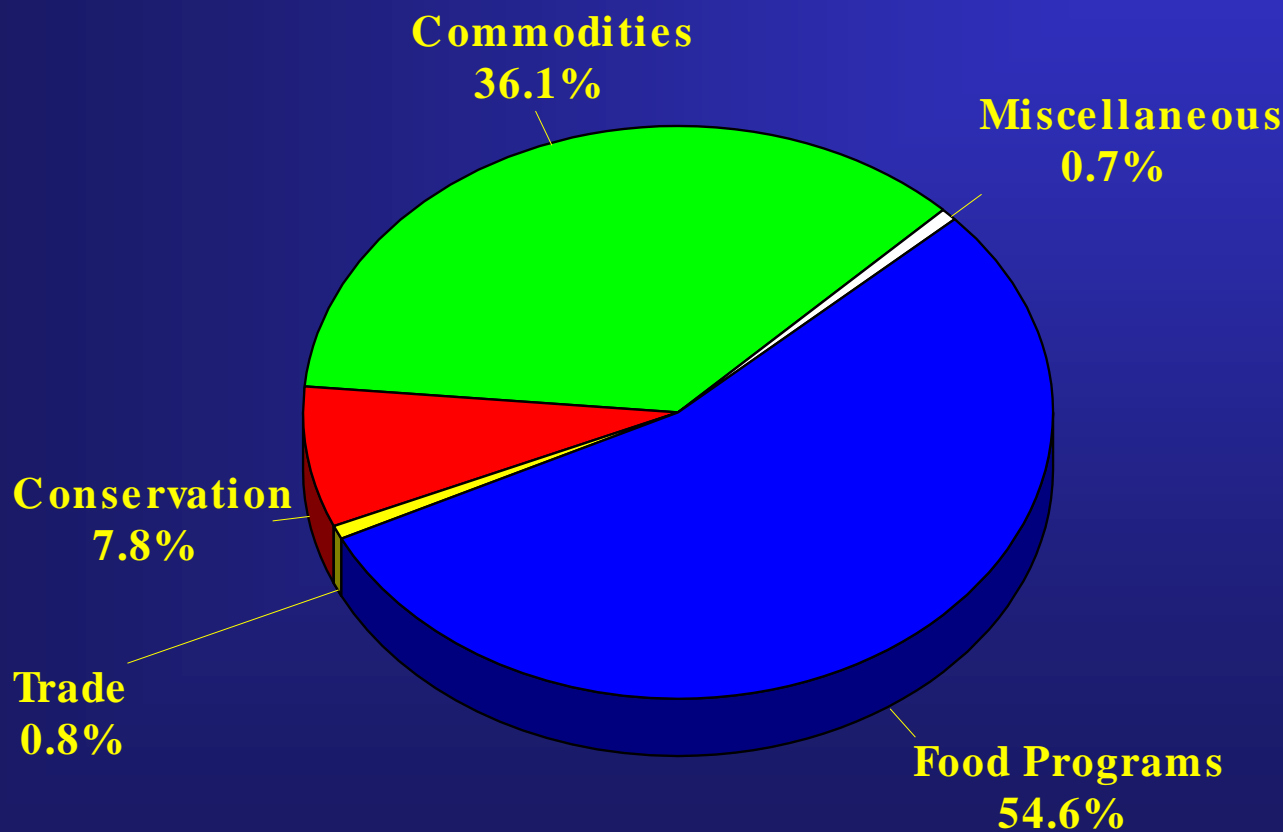
Farm Bill Spending, 2002-07

- **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 Farm Bill: 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) or Loan Deficiency Payments (LDP) - Continuation**
 - **Initiated New Counter-cyclical Payments (CCP) - reinstates Target Prices***



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 2001 Rate	2002 Farm Bill 2002 – 03 Rate	2002 Farm Bill 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



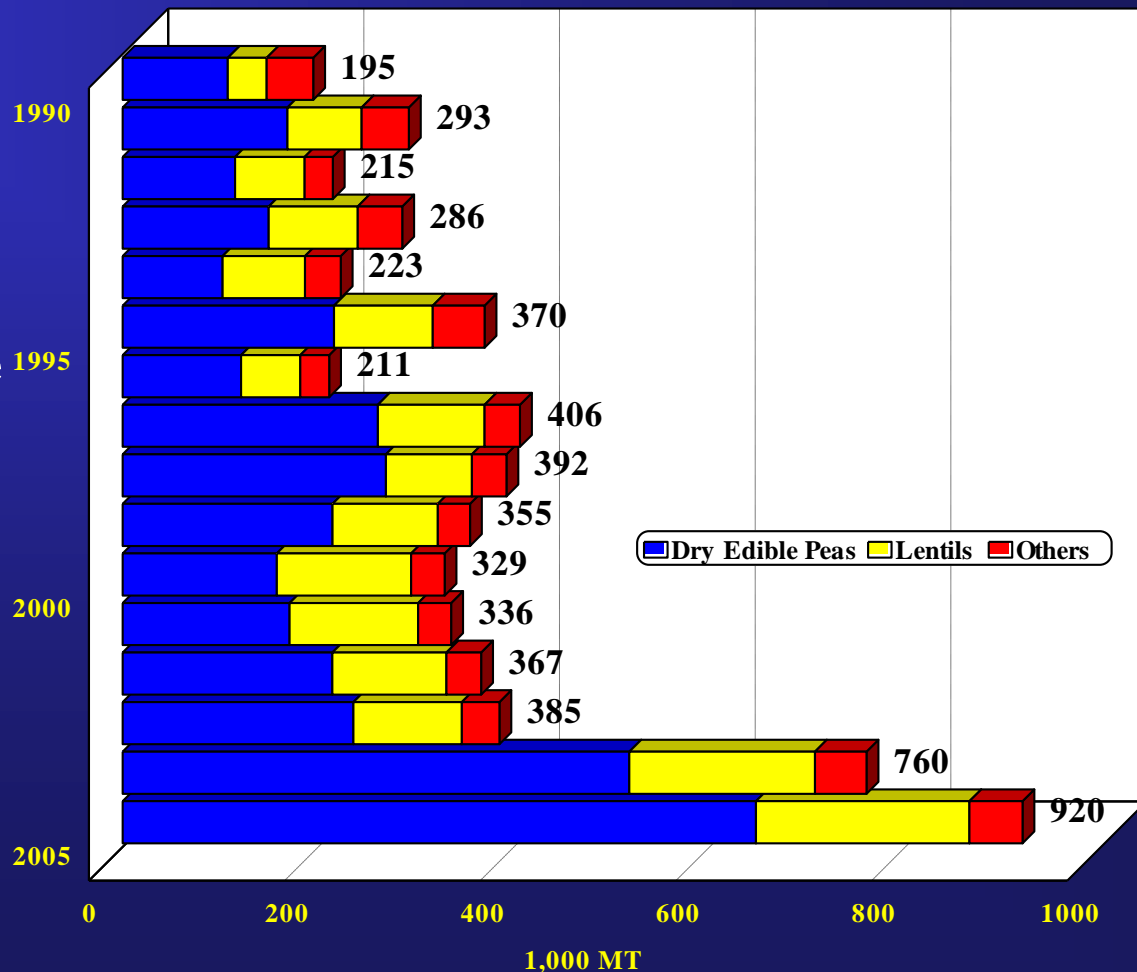
Potential Impacts of Farm Bill

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

- Marketing Loan Program
- Favorable Lentil Prices/Falling Alternative Crop Prices
- Relatively Low Input Costs
- Long-term Benefits from including in Crop Rotation

- Most Growth in ND, WA, MT

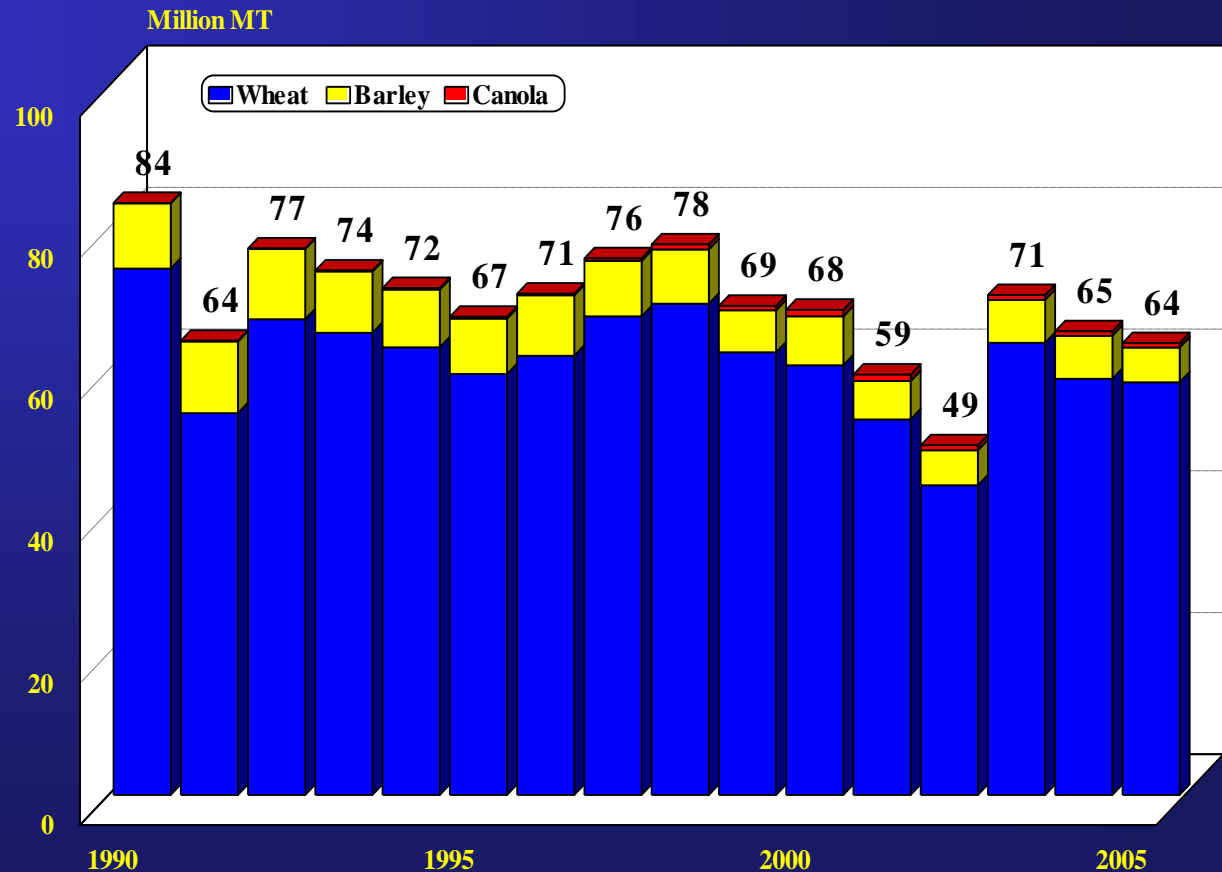
U.S. Peas and Lentil Production



Source: Vegetables and Melons Outlook, ERS, USDA

Potential Impacts of Farm Bill

U.S. Wheat, Barley, and Canola Production



Source: Vegetables and Melons Outlook, ERS, USDA

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

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

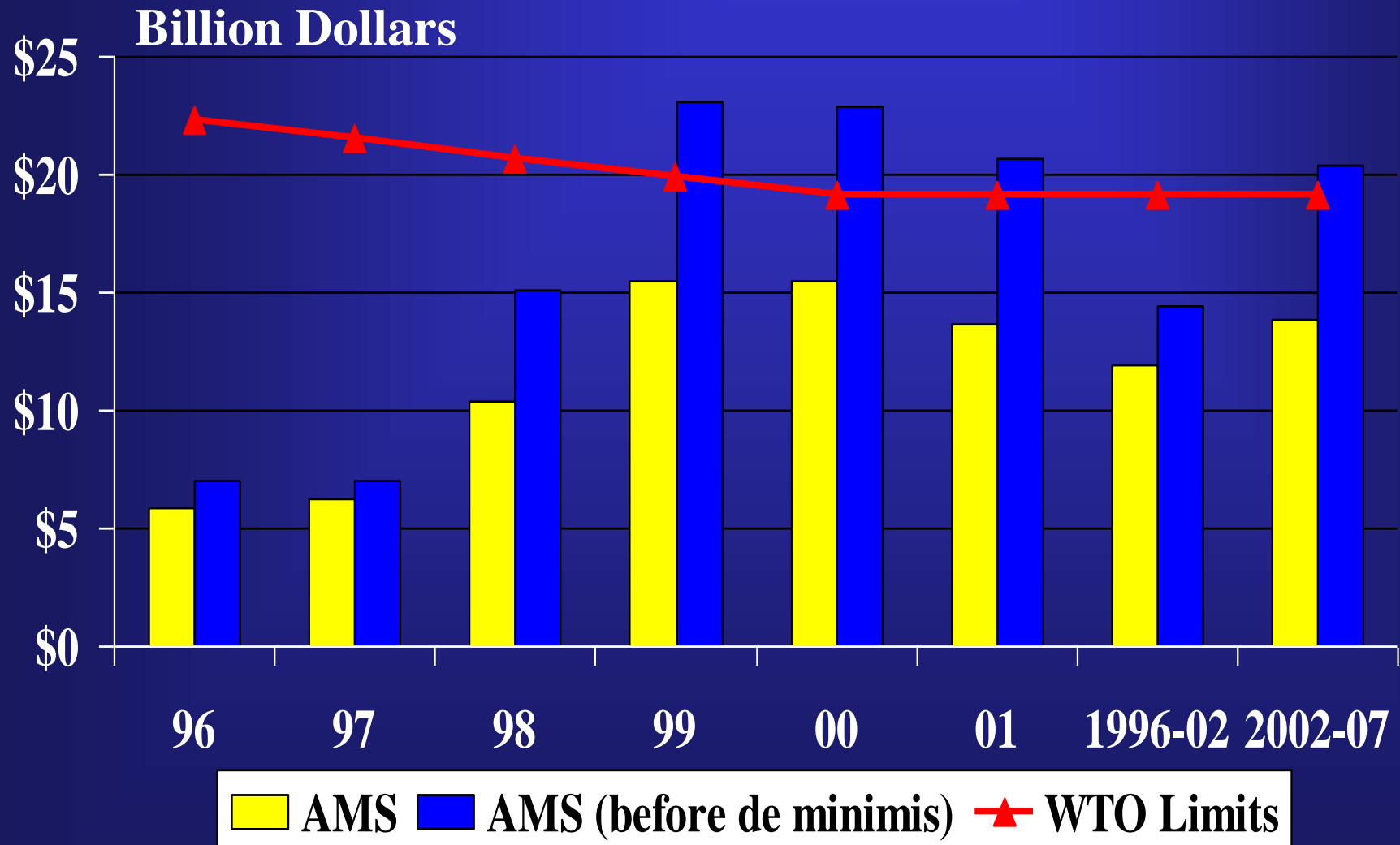


WTO Issues/Impacts

- 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**

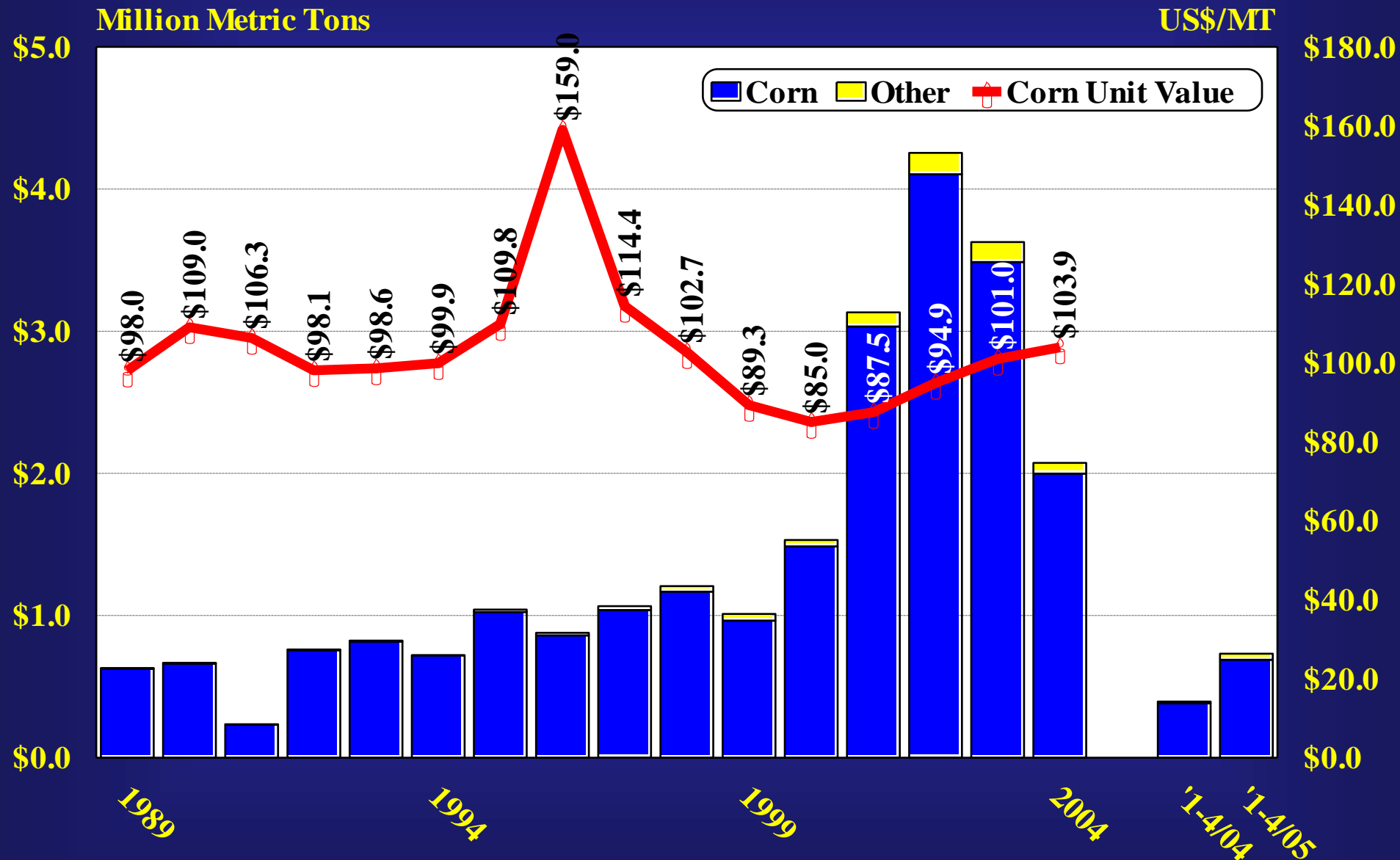
Case Example: Beef and Cattle



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

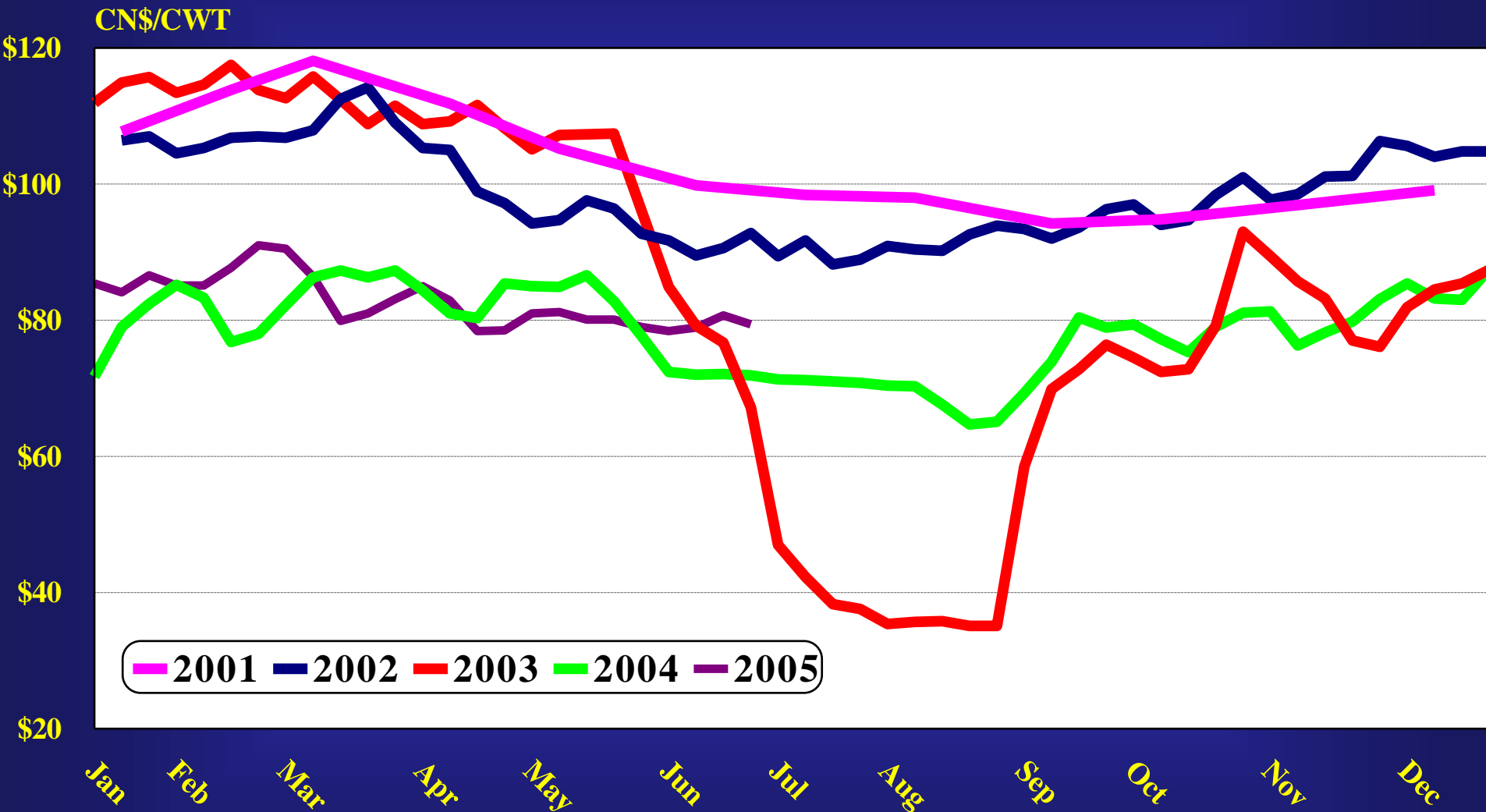
- **Investment in Prairie Province Beef Industry**
- **Availability of Cheap U.S. Corn and Export of this Corn to the Canadian Cattle Feeding Industry**
- **Concern over the Potential Impacts of MCOOL**
- **Dynamics Changed with Discovery of BSE**
- **Ban on Canadian Cattle Exports to U.S. and Low Canadian 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

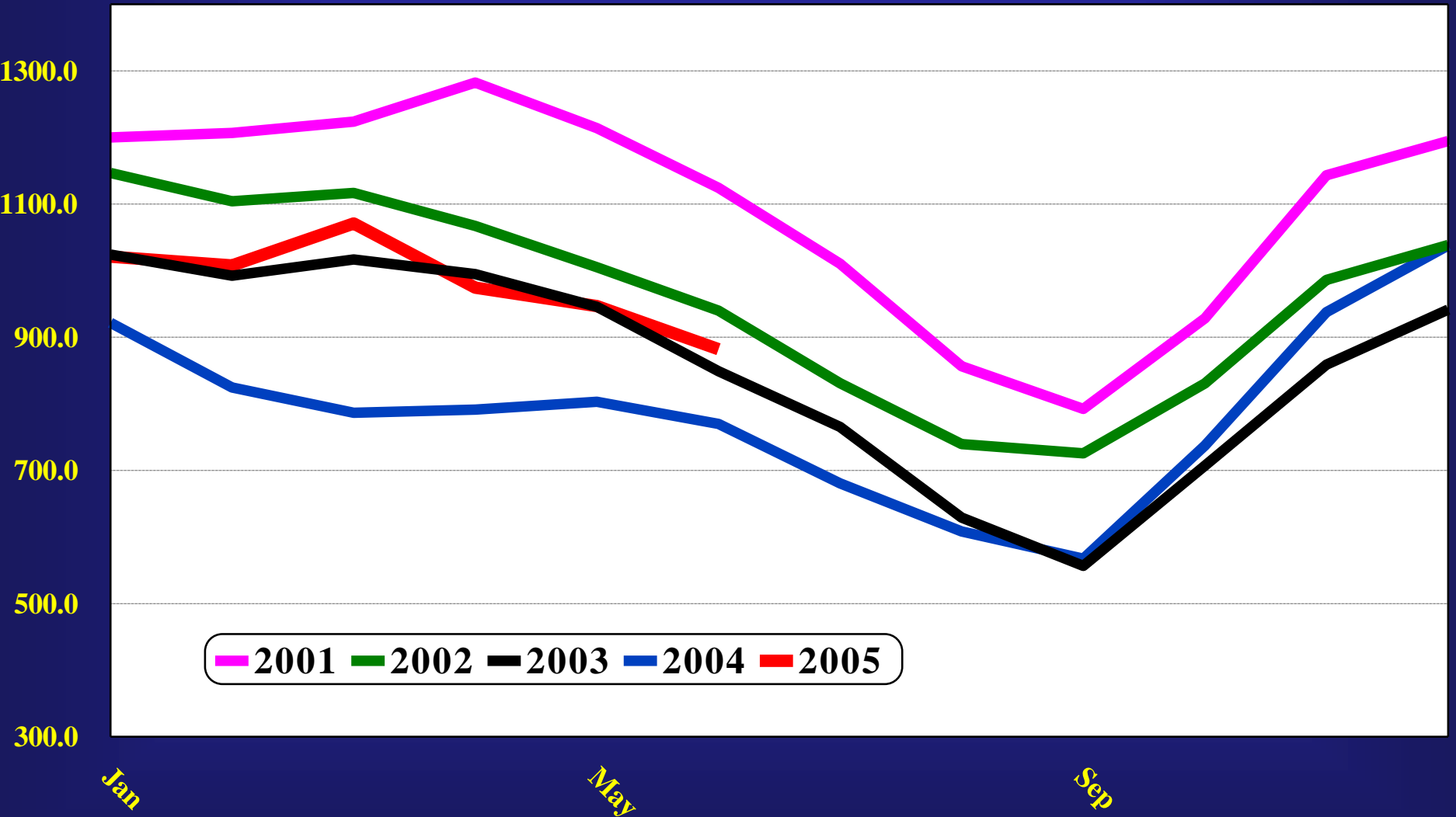
Alberta Direct Fed Steer Price, Jan 01 – Jun 05



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

Thousand Head



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**