The 2007 Farm Bill: More of the Same or a New Path?

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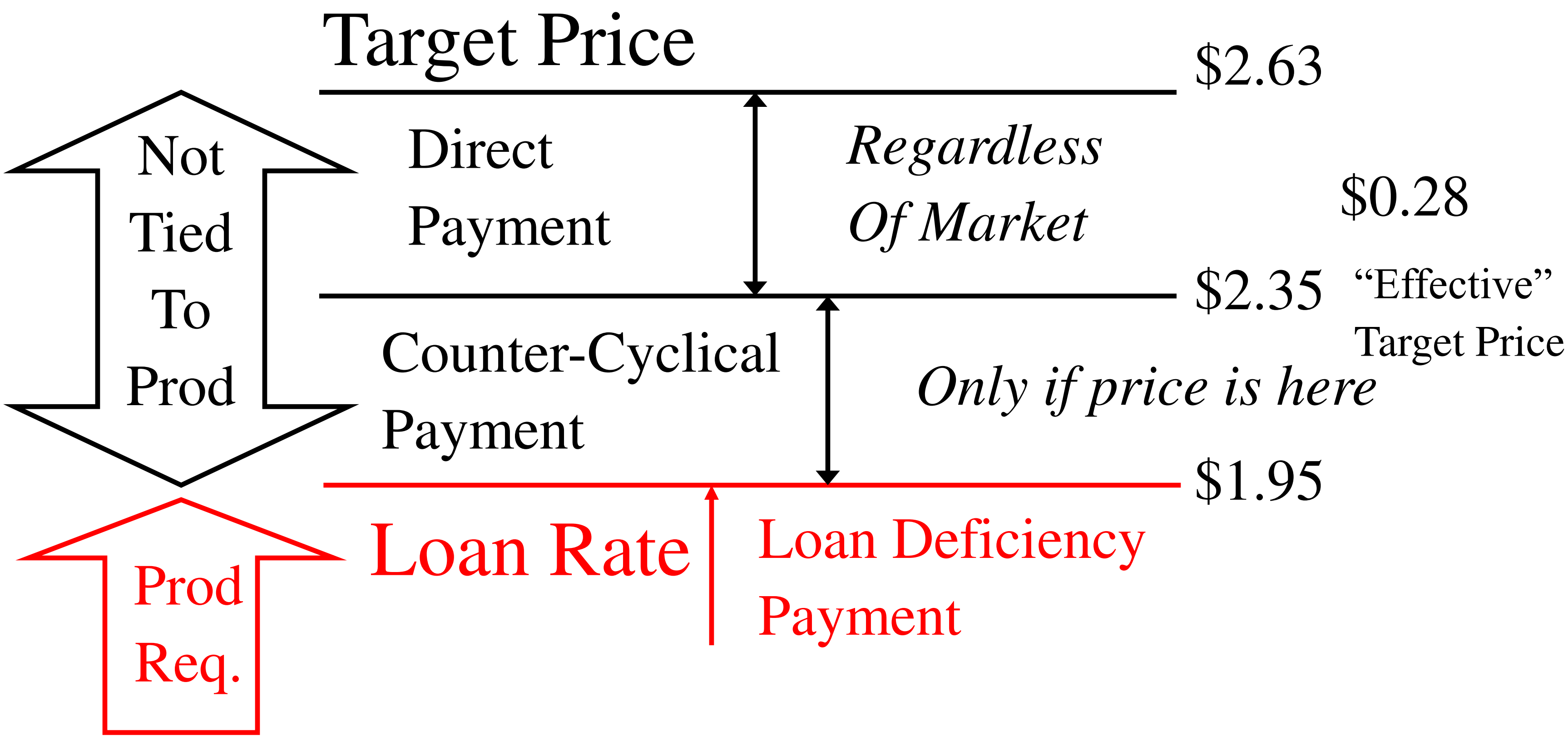
Three Key Forces at Work

- Inertia: Nothing is broke so why change?
- Budget: “Surpluses as far as the eye can see” to “Deficits as far as the eye can see”
- WTO: New limits on amber and blue box spending would require change

Presentation Overview

- Review current set of programs
  - How they work
  - Measure value they provide to corn farmers
  - Show their impact on farm revenue risk
- Impact of a tight budget
  - Are we using federal policy dollars wisely?
- Impact of smaller spending boxes
  - Would a change in policy be a good strategic move?

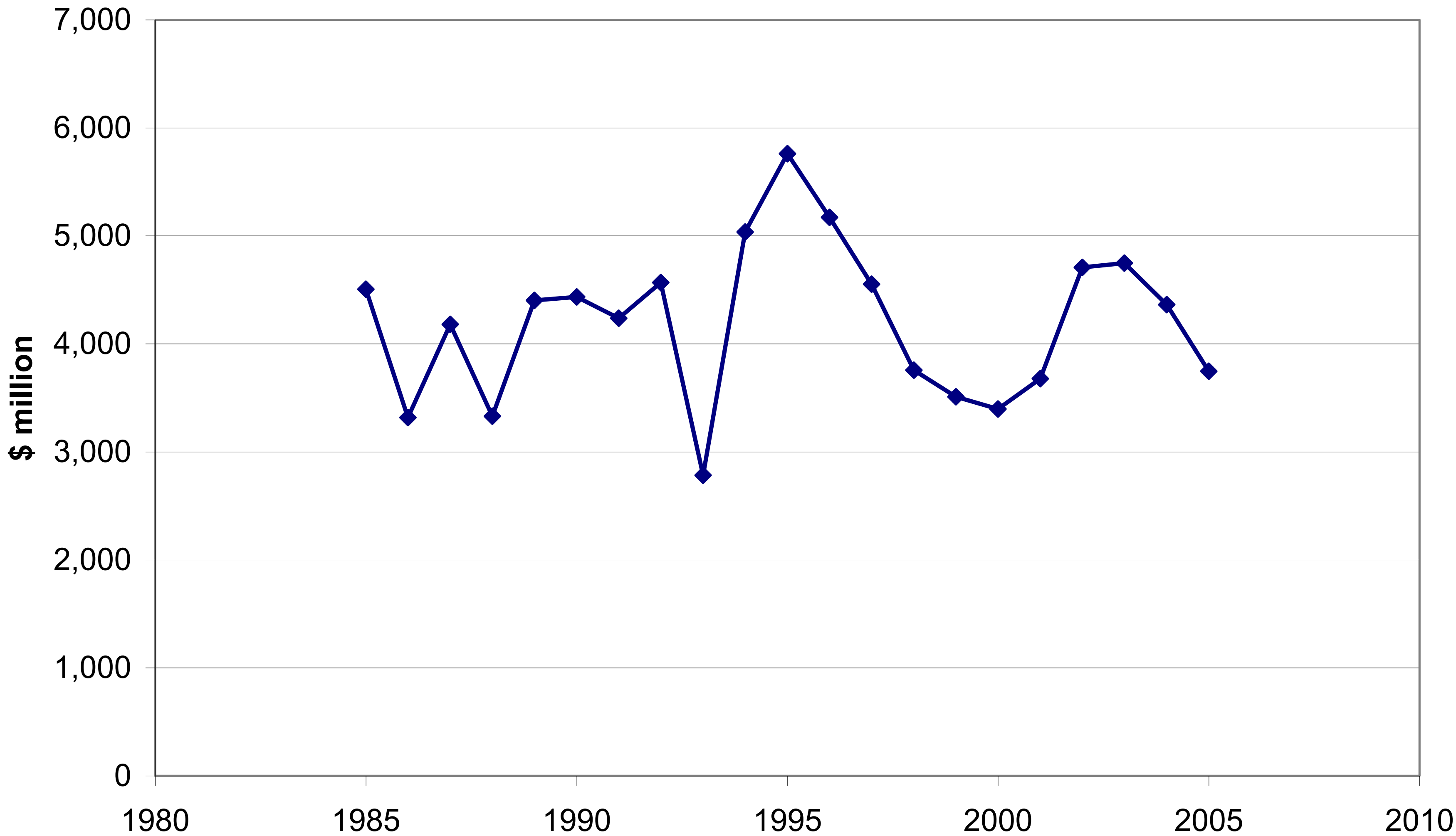
Structure of Program Payments for Corn



Other fun facts

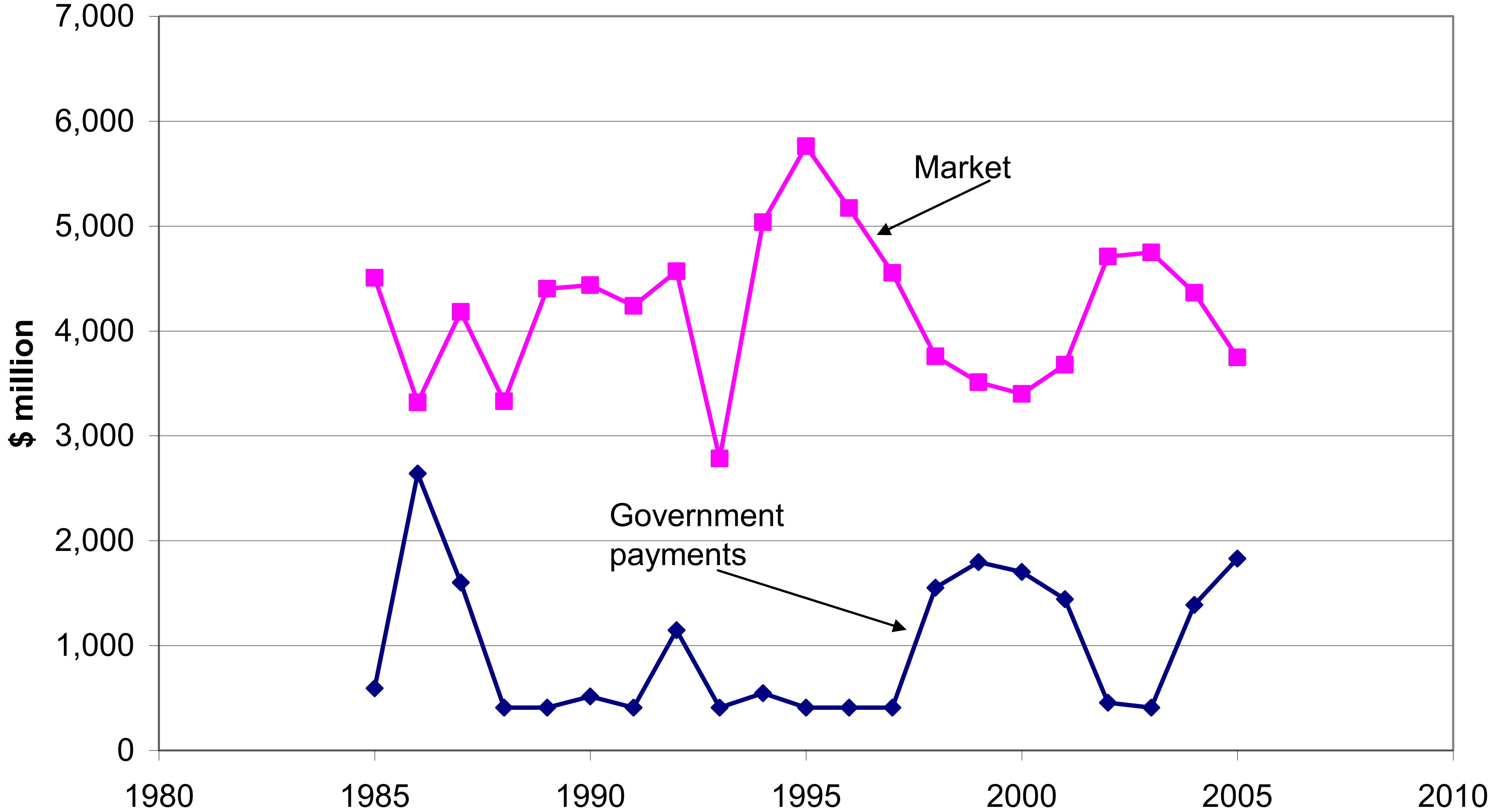
- CCP payment bushels
  - 1531 mbu for corn
  - 257 mbu for soybeans
- DP payment bushels
  - 1456 mbu for corn
  - 238 mbu for soybeans
- Average Iowa production from 2000-04
  - 1892 mbu of corn
  - 439 mbu
- Ratio of payment bushels to average production
  - Corn: 81% for CCP and 77% for DP
  - Soybeans: 58% for CCP and 52% for DP

Trend Adjusted Market Revenue for Iowa Corn



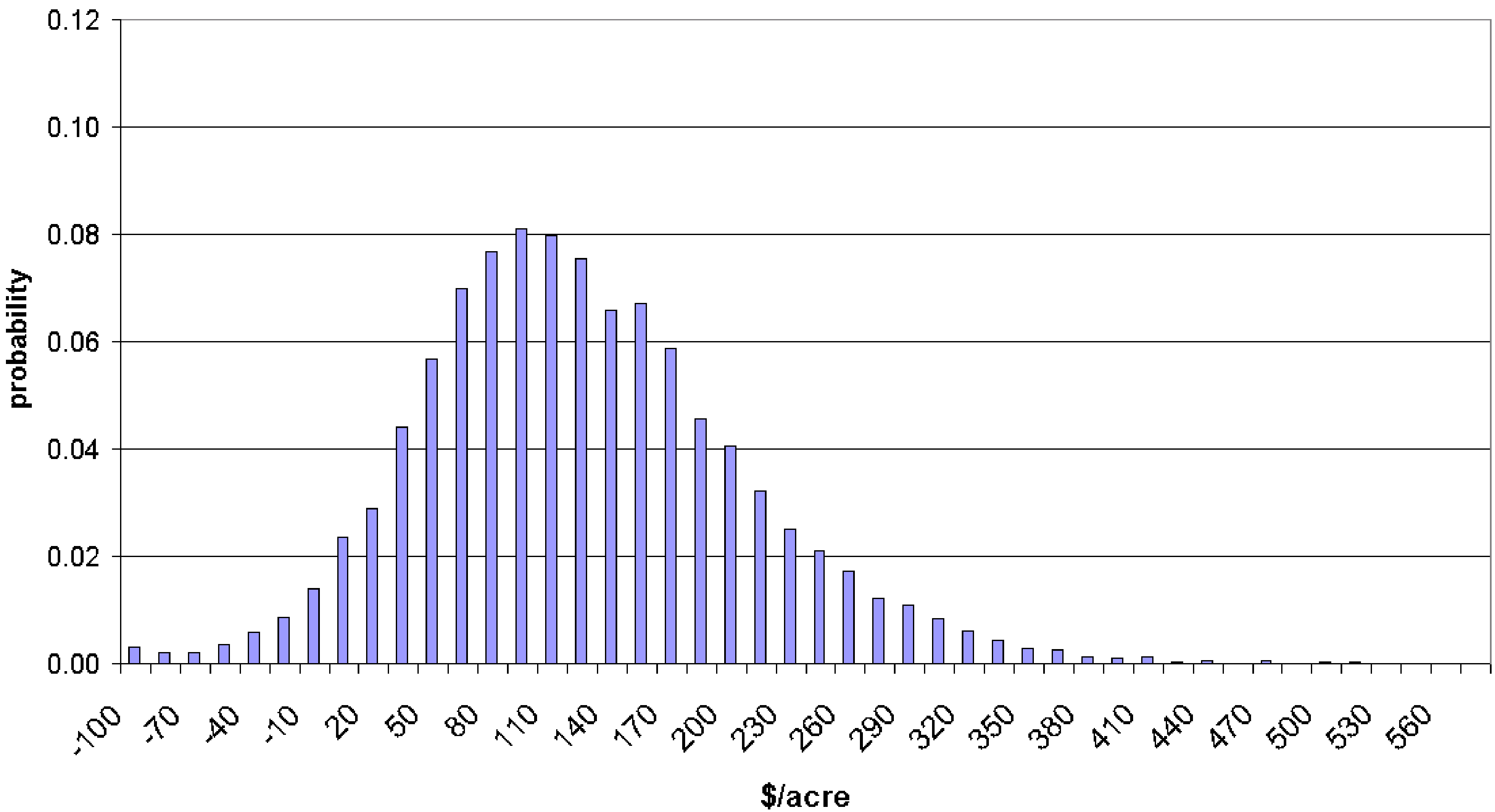
When Do Payments Arrive?

(Assuming current program in place since 1985)

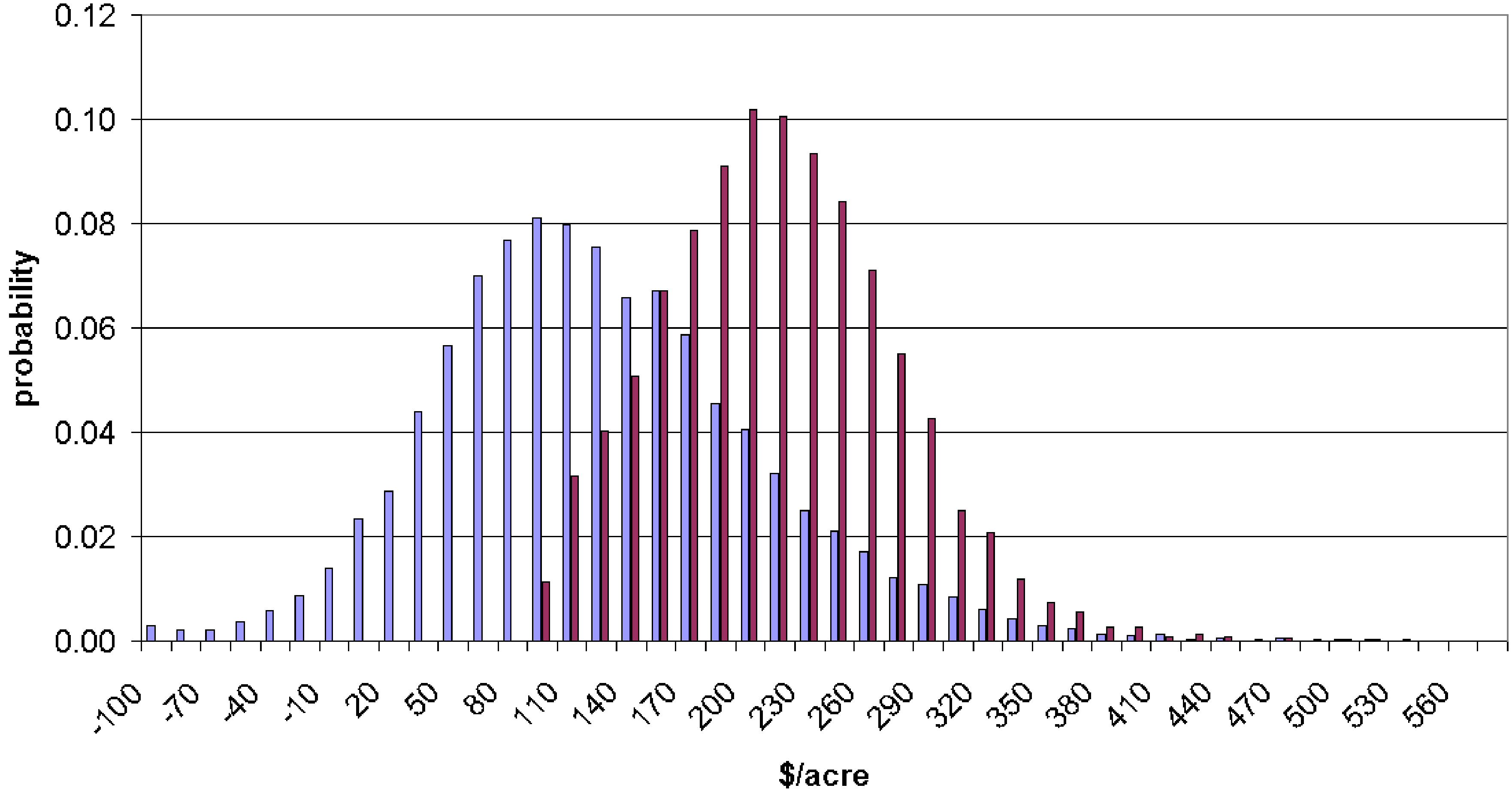


Revenue Risk from Growing Iowa Corn

Distribution of Corn Harvest Revenue Less $180 Variable Cost



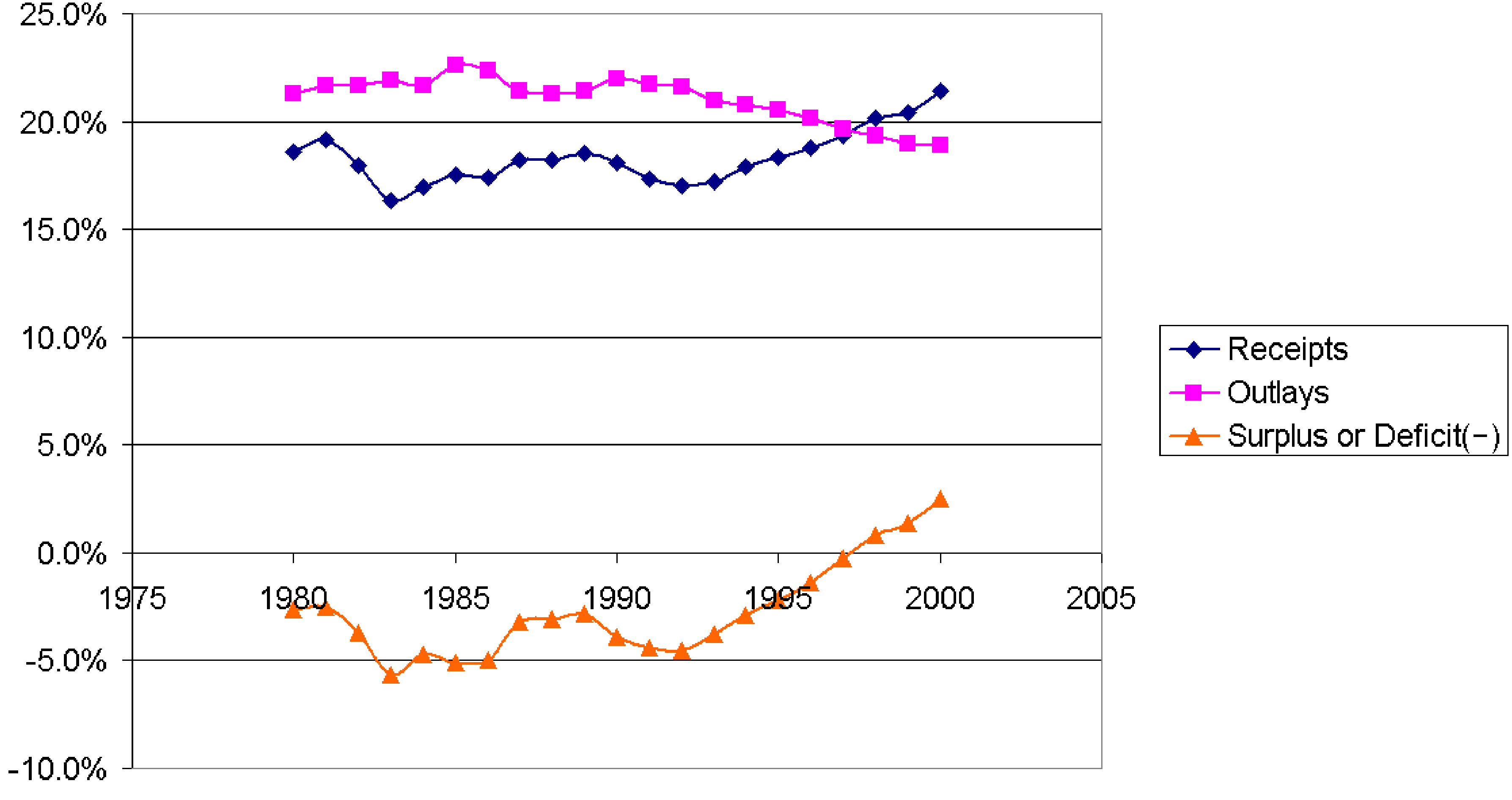
Impact of Commodity Programs and Crop Insurance on Revenue Risk



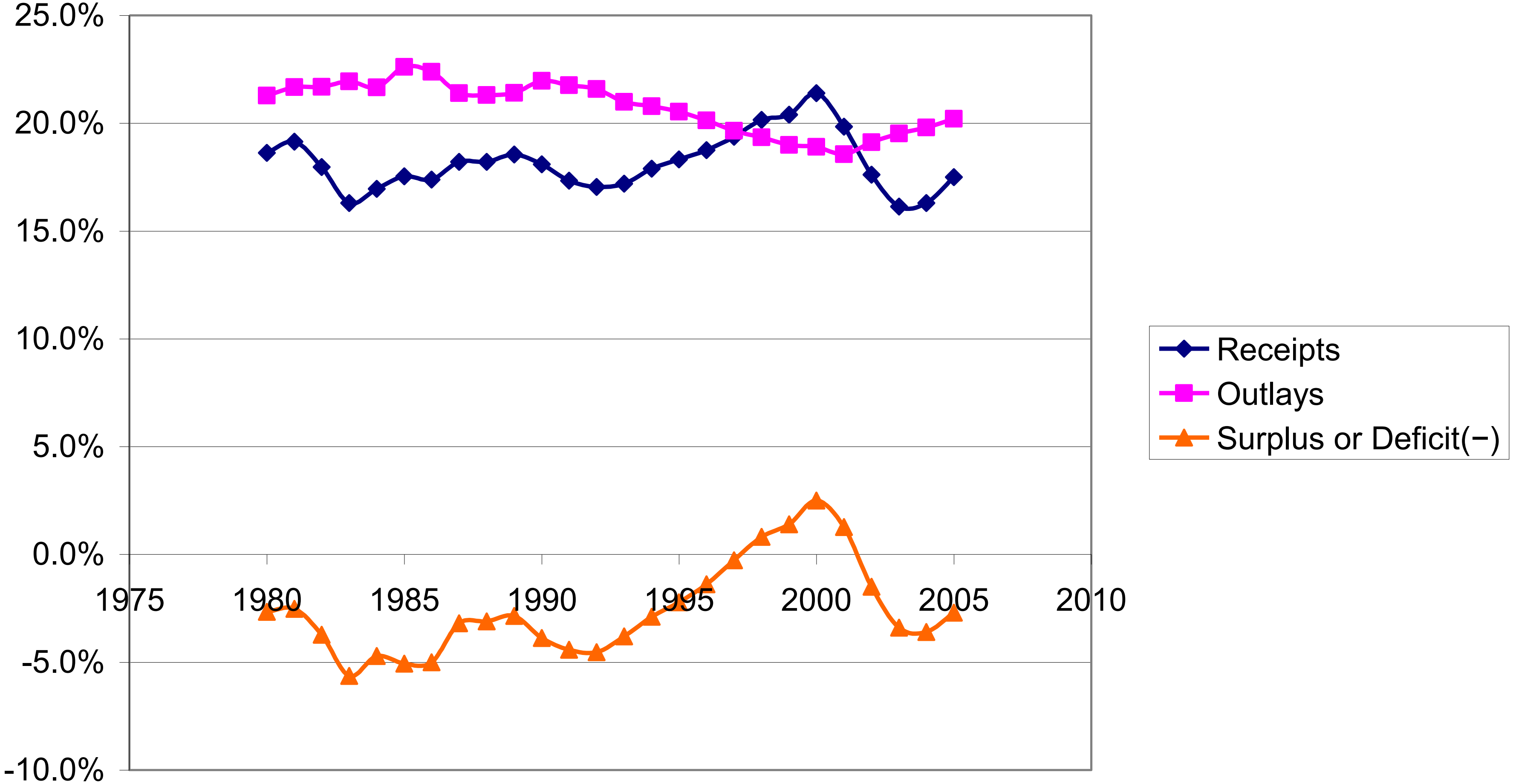
Current State of Affairs

- Why change?
  - USDA Secretary Johanns says change is needed.
  - Budget hawks say change is needed to save money
  - Our trading partners say change is needed because our policy depresses world prices
  - Midwest senators say payment limits should be put into place

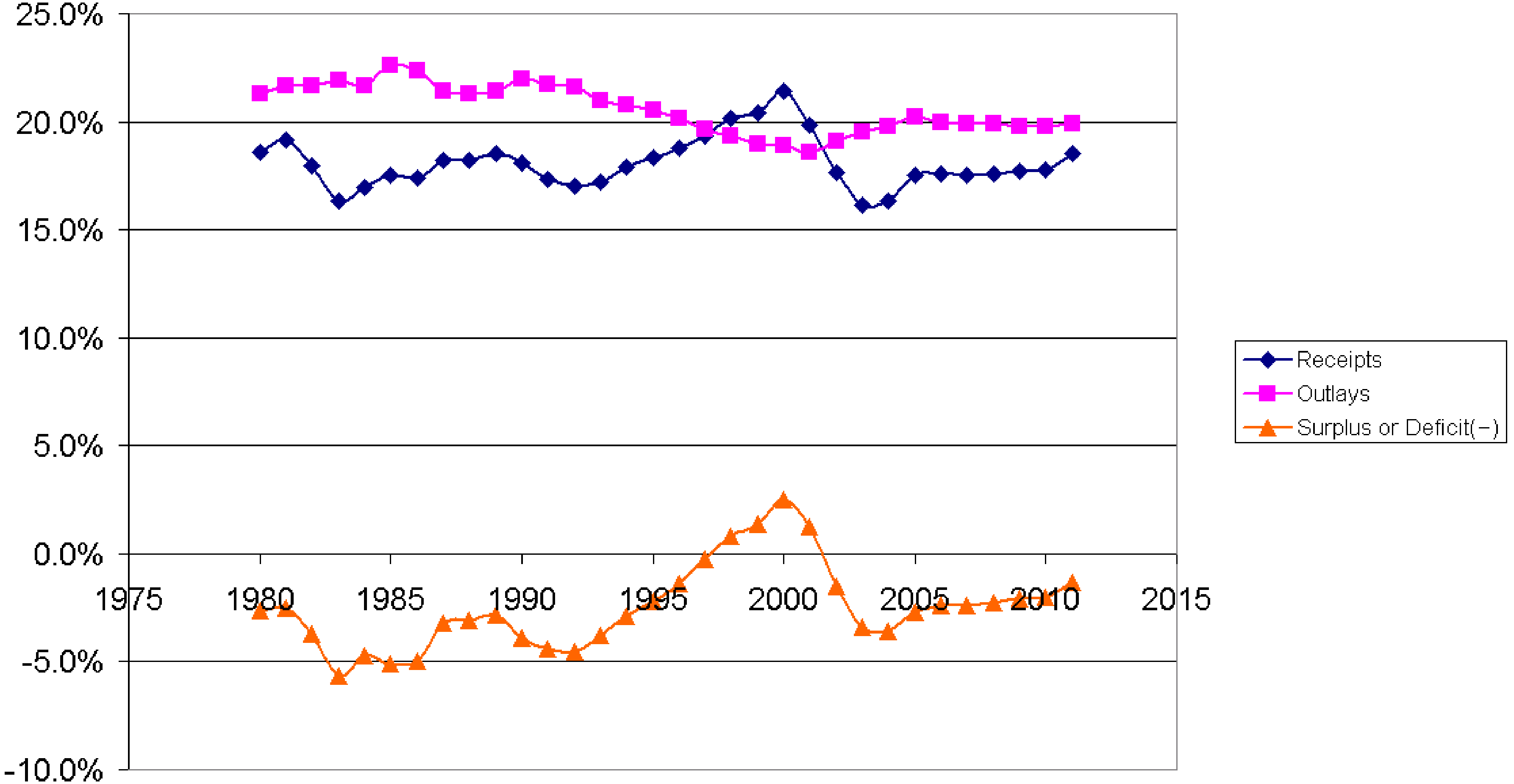
Federal Outlays and Receipts as a Percent of GDP to 2000



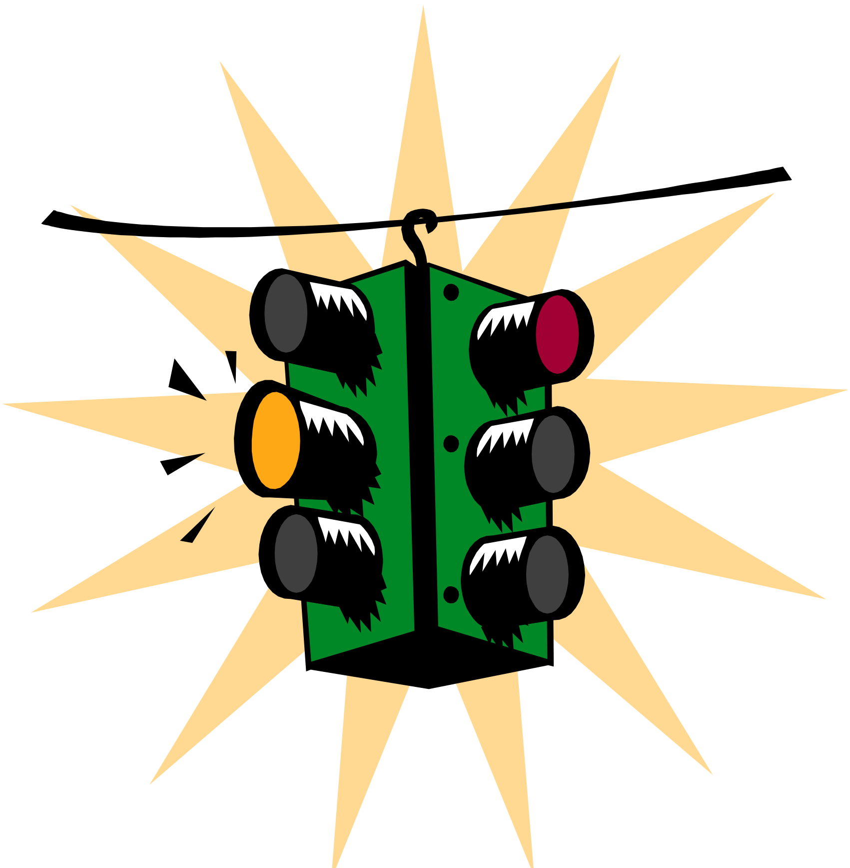
Federal Outlays and Receipts as a Percent of GDP to 2005



Federal Outlays and Receipts as a Percent of GDP Projected to 2011

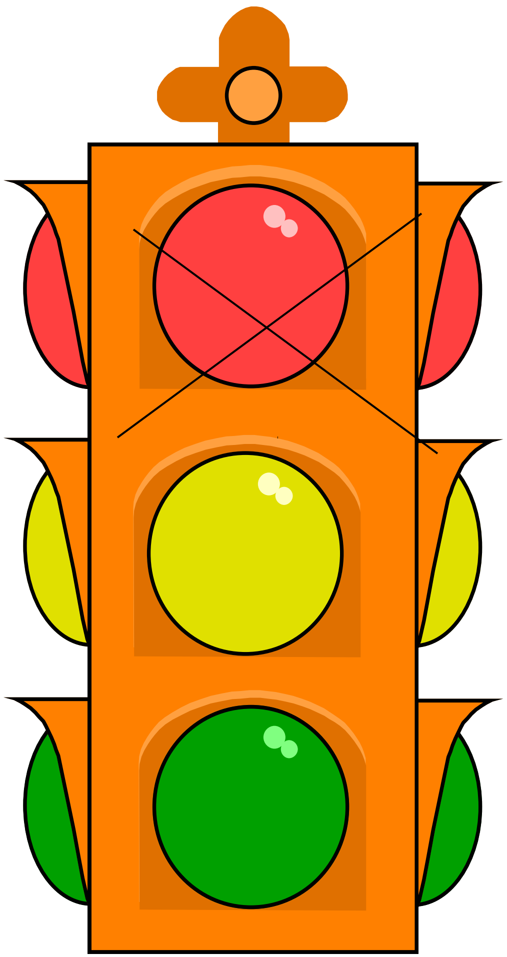


"Traffic Light" Analogy



- Red Light -- "Stop" Subsidizing
- **Amber Light -- "Slow Down" Subsidies**
- **Green Light -- "Go" on as Before**

Uruguay Round Agreement: "Traffic Light" turns into "Boxes"



- No **Red Light supports**.
- Amber Box contains controlled supports.
- Green box remains.
- U.S. & EU create a Blue Box.

The Agreement:

Reduction in Total Aggregate Measure of Support (AMS) or Amber Box

Total AMS is All Government Support in Favor of Agricultural Producers *Minus*

- **Green Box Expenditures**
- **Blue Box Expenditures**
- ***De Minimis* Expenditures**

Requirements to be "Green"

Payments may not be related to **current prices**.

Payments may not be related to **current production**.

Recipients cannot be required to produce anything to receive a payment.

The Famous Boxes

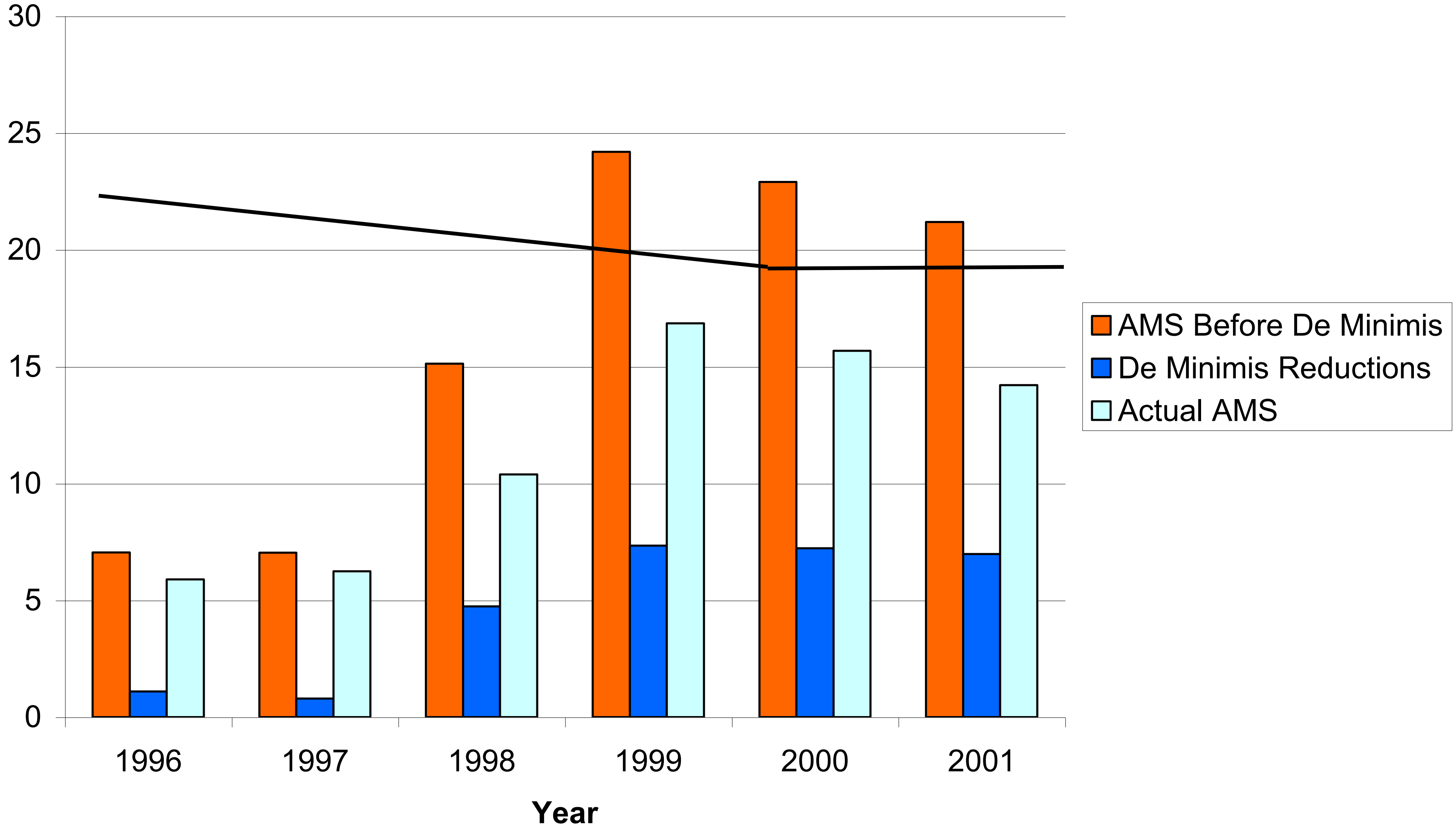
Research, Environ. Payments, Disaster Assistance, Disease Control /Inspection, Resource Retirement, Domestic Food Aid, De-coupled Income Sup.

Fixed Acre/Yield Payments & Deficiency Payments w/ 15% Non-Pay Acres

Price Support Programs
Deficiency Payments
Input and Investment Subsidies
(Coupled Income Support)

***De minimis* Payments**

How the U.S. Met Its AMS Limits



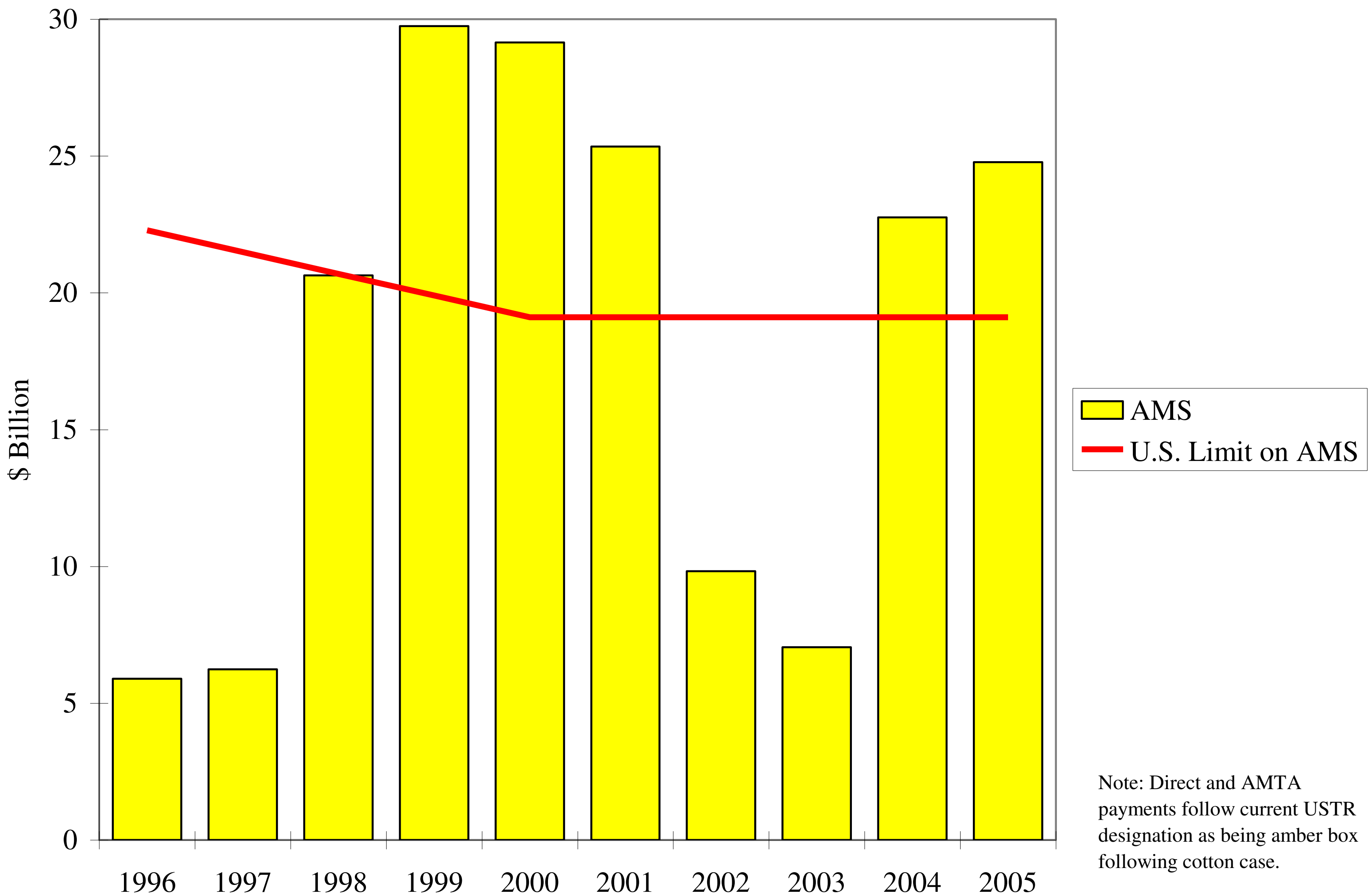
Cotton Ruling Upsets US Compliance

- Brazil brought a complaint about US cotton subsidies to the WTO panel.
- Old WTO agreement held countries harmless if
  - amber box spending was below the cap, *and*
  - Crop specific spending was below the base period spending (peace clause)
- WTO panel ruled that cotton spending exceeded the base period, and

WTO Cotton Finding

- Brazilian cotton producers were harmed by U.S. subsidies
  - Export subsidies (step 2) should be immediately ended
  - LDPs lowered world prices, causing harm to Brazilian cotton farmers
  - AMTA and DPs “do not fully conform” to Green Box guidelines because of restrictions on fruit and vegetable production.

Expenditures on Current Safety Net



Note: Direct and AMTA payments follow current USTR designation as being amber box following cotton case.

The U.S. Doha Proposal

- Blue Box capped at 2.5% of value of production
  - CCP’s would fall in this box
- Amber Box capped at $7.64 billion instead of $19.1 billion
  - LDPs would fall in amber box as well as dairy and sugar programs

Impact of the U.S. Proposal

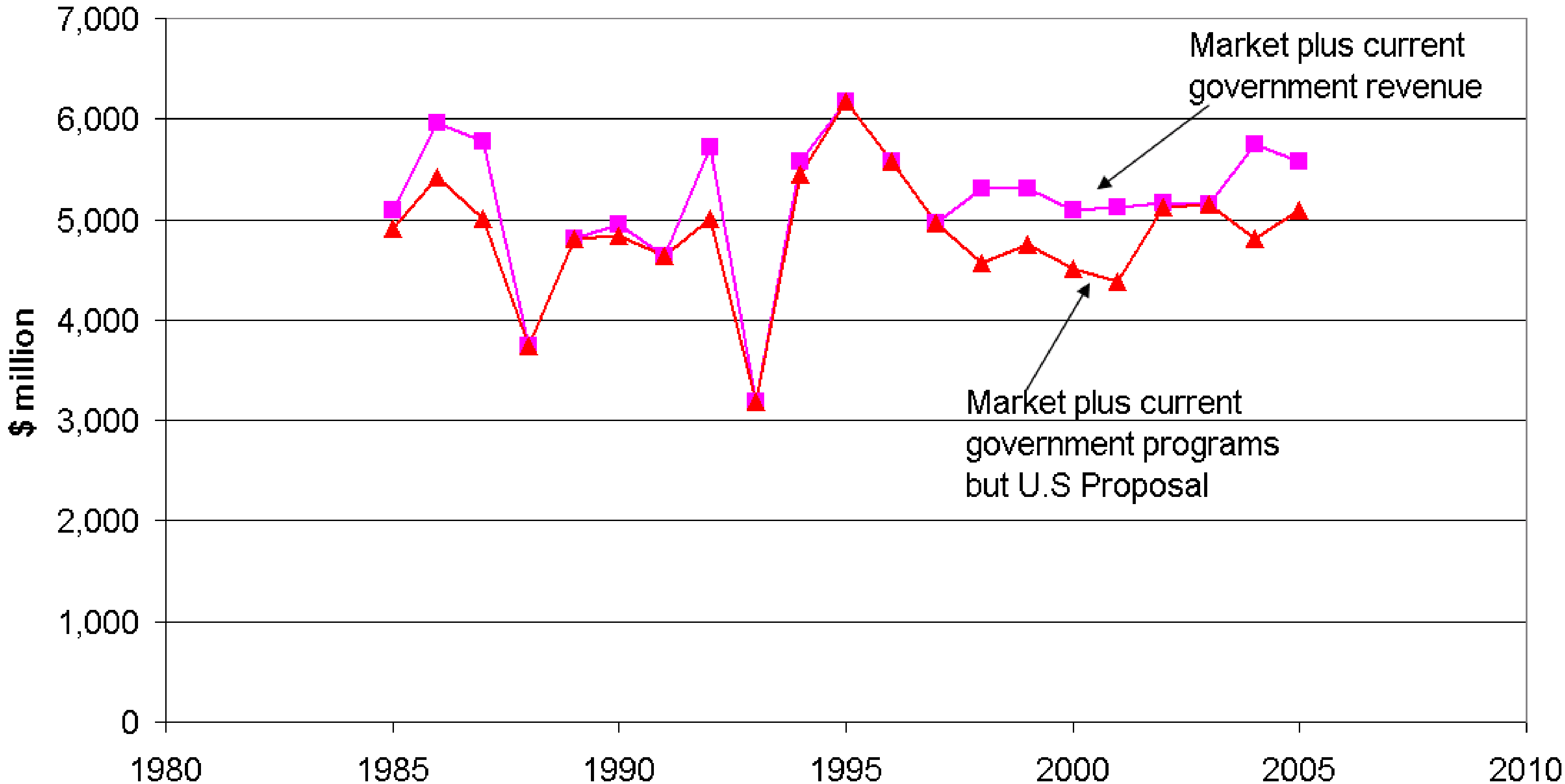
- Using historical analysis*
  - Corn loan rate would drop from $1.95 to $1.77
  - Corn target price would drop from $2.63 to $2.37
  - Corn effective target price would drop from $2.35 to $2.09
- Using forward looking analysis**
  - Corn loan rate $1.74
  - Corn effective target price $2.17

*Babcock and Hart. "How Much "Safety" Is Available under the U.S. Proposal to the WTO?" CARD Briefing Paper 05-BP 48 November 2005.

**Potential Impacts on U.S. Agriculture of the U.S. October 2005 WTO Proposal FAPRI-UMC Report #16-05 December 15, 2005.

Impact on Total Iowa Corn Revenue from U.S. Proposal

(Assuming current program in place since 1985)



To Summarize

- Budget cuts or WTO agreements will mean change in US farm policy
- Choice could face agriculture:
  - Keep same programs with lower support prices but perhaps expanded direct payments?
  - Opt for new programs?

Alternative Programs

- Conservation Payments
- Move to a revenue counter-cyclical payment program
  - Would cost less for by reducing “over-payments”
  - Would reduce importance of crop insurance programs
  - Would be able to deliver higher average payments while meeting WTO constraints