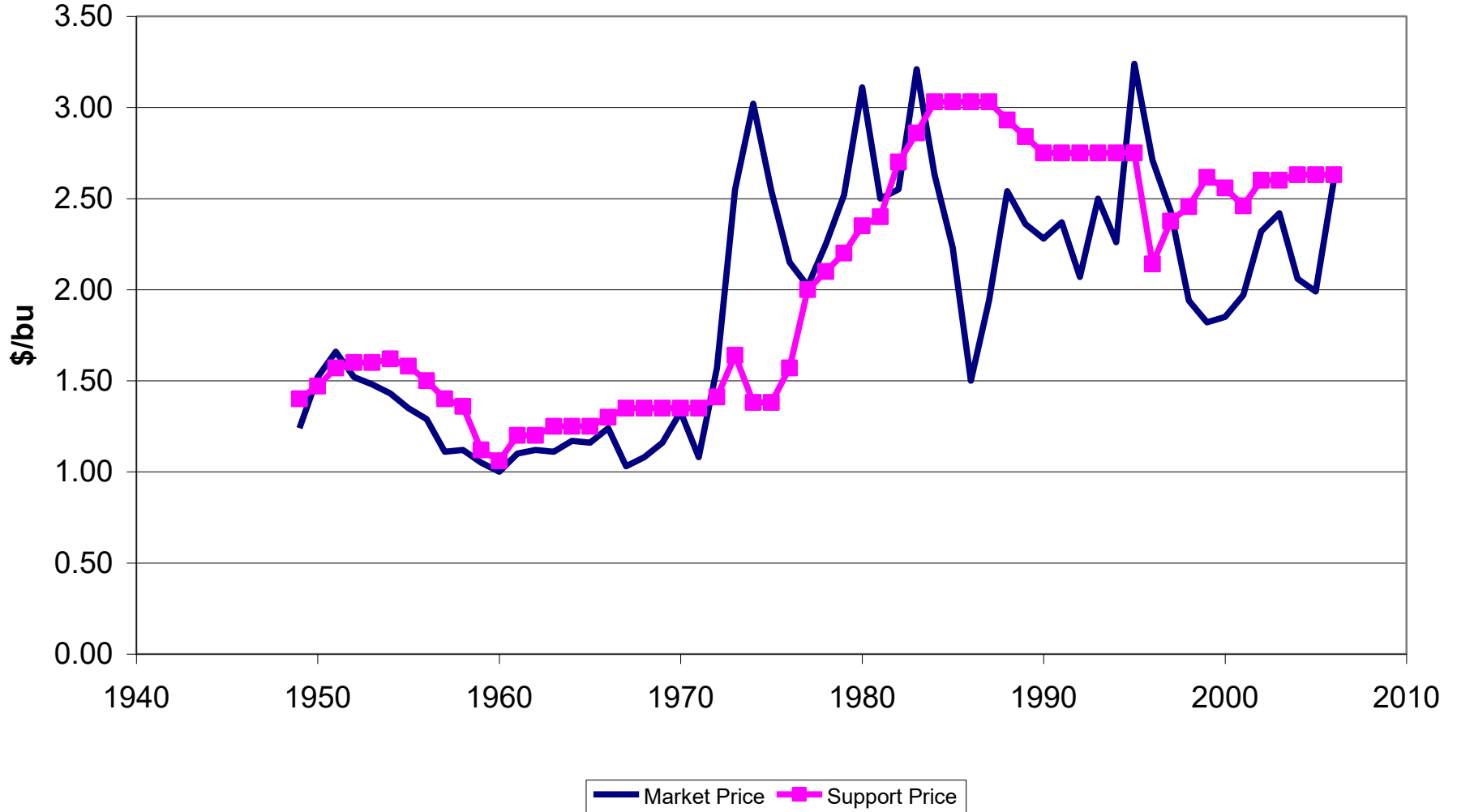


U.S. Farm Policy Choices in 2007

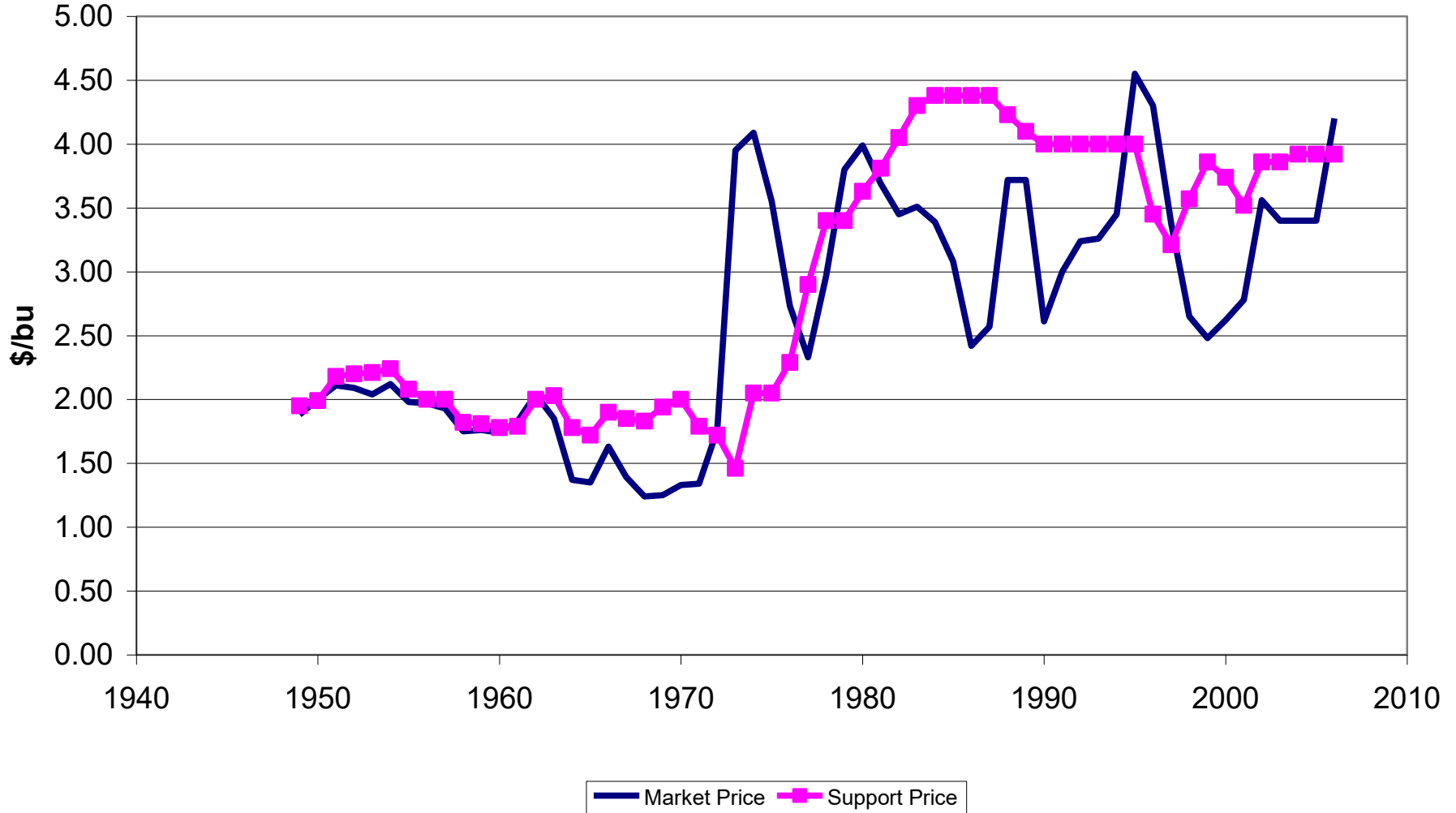
Bruce A. Babcock
Center for Agricultural and Rural Development
Iowa State University

Presented at Outlook Conference 2006
Toronto, Ontario November 9, 2006

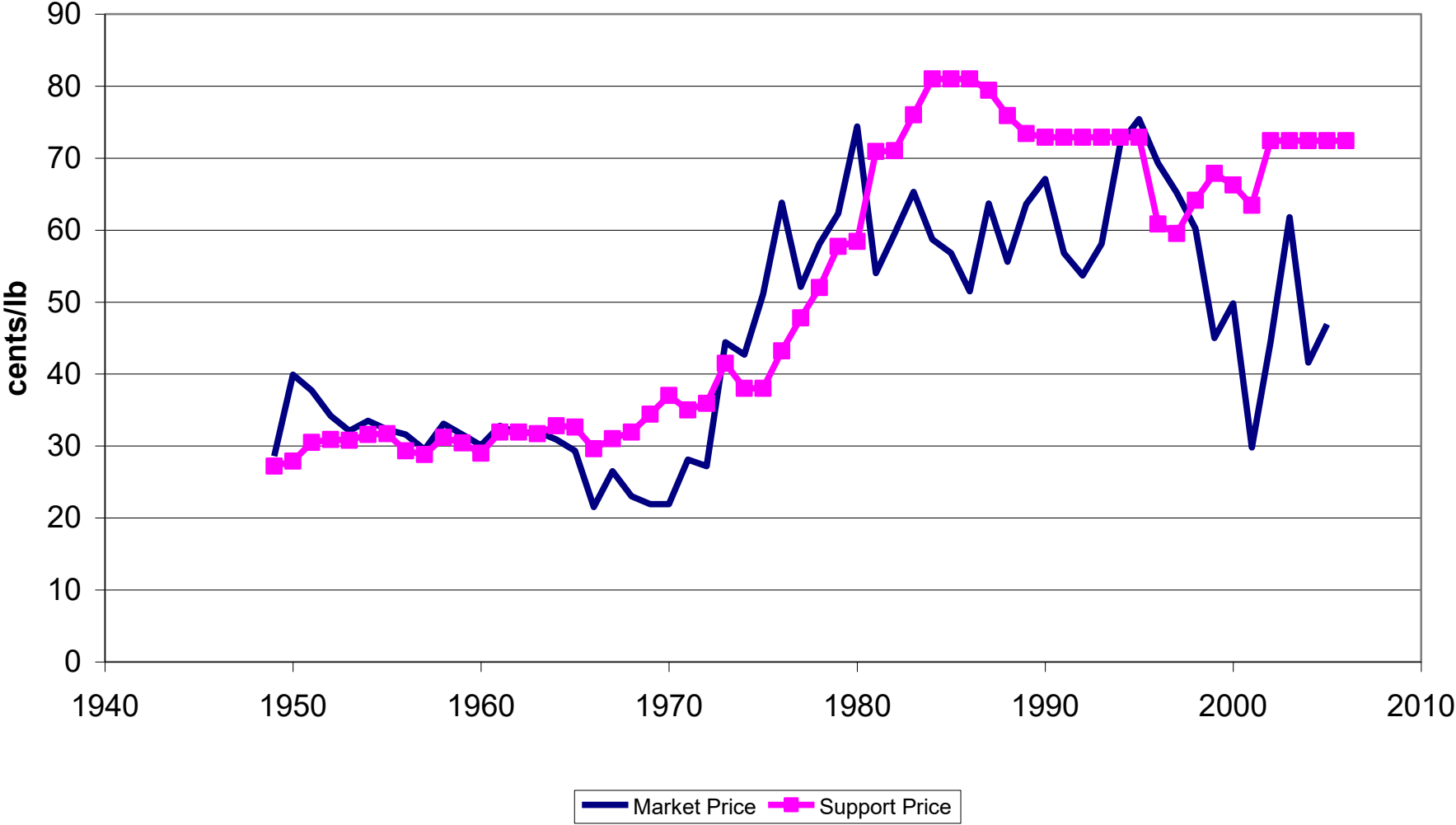
Corn Market Prices and Support Levels



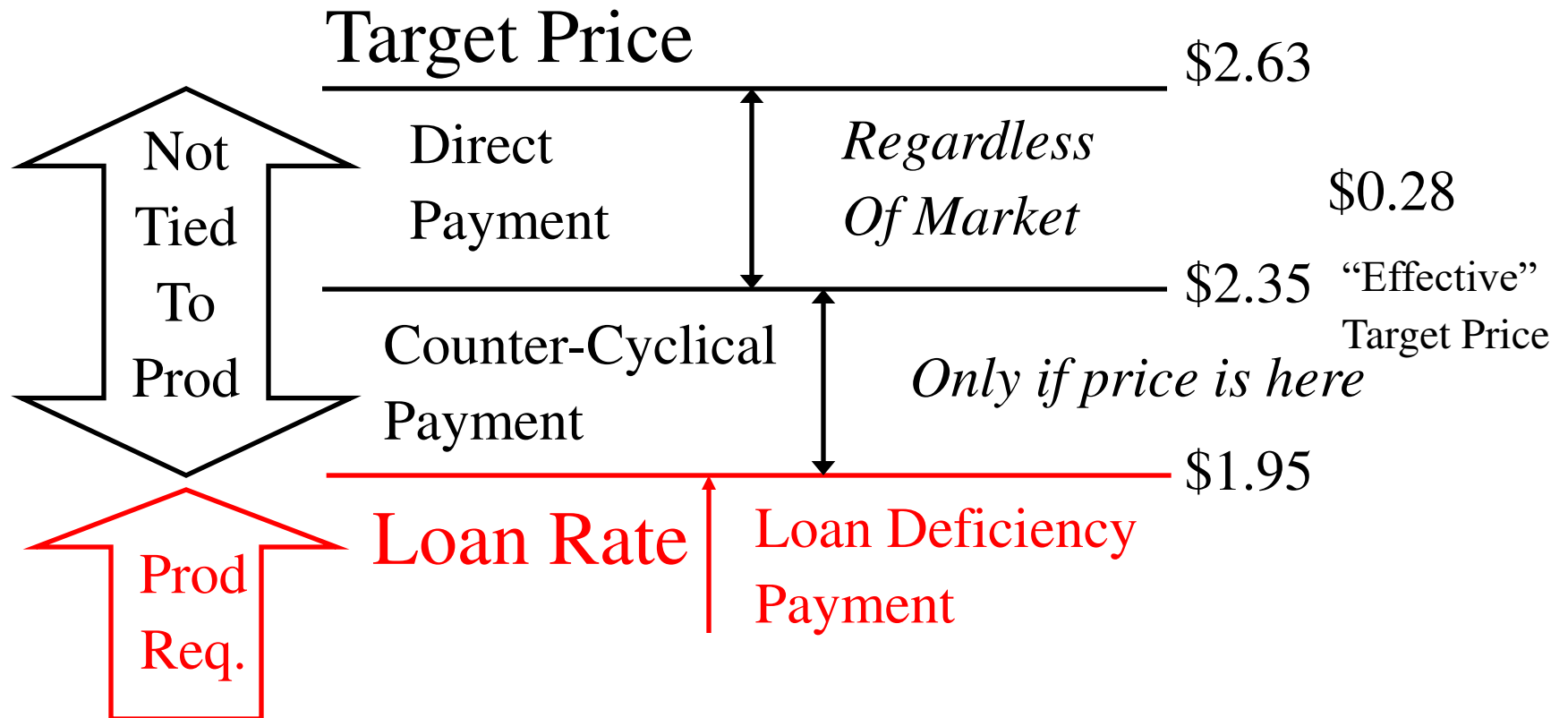
Wheat Market Prices and U.S. Support Levels



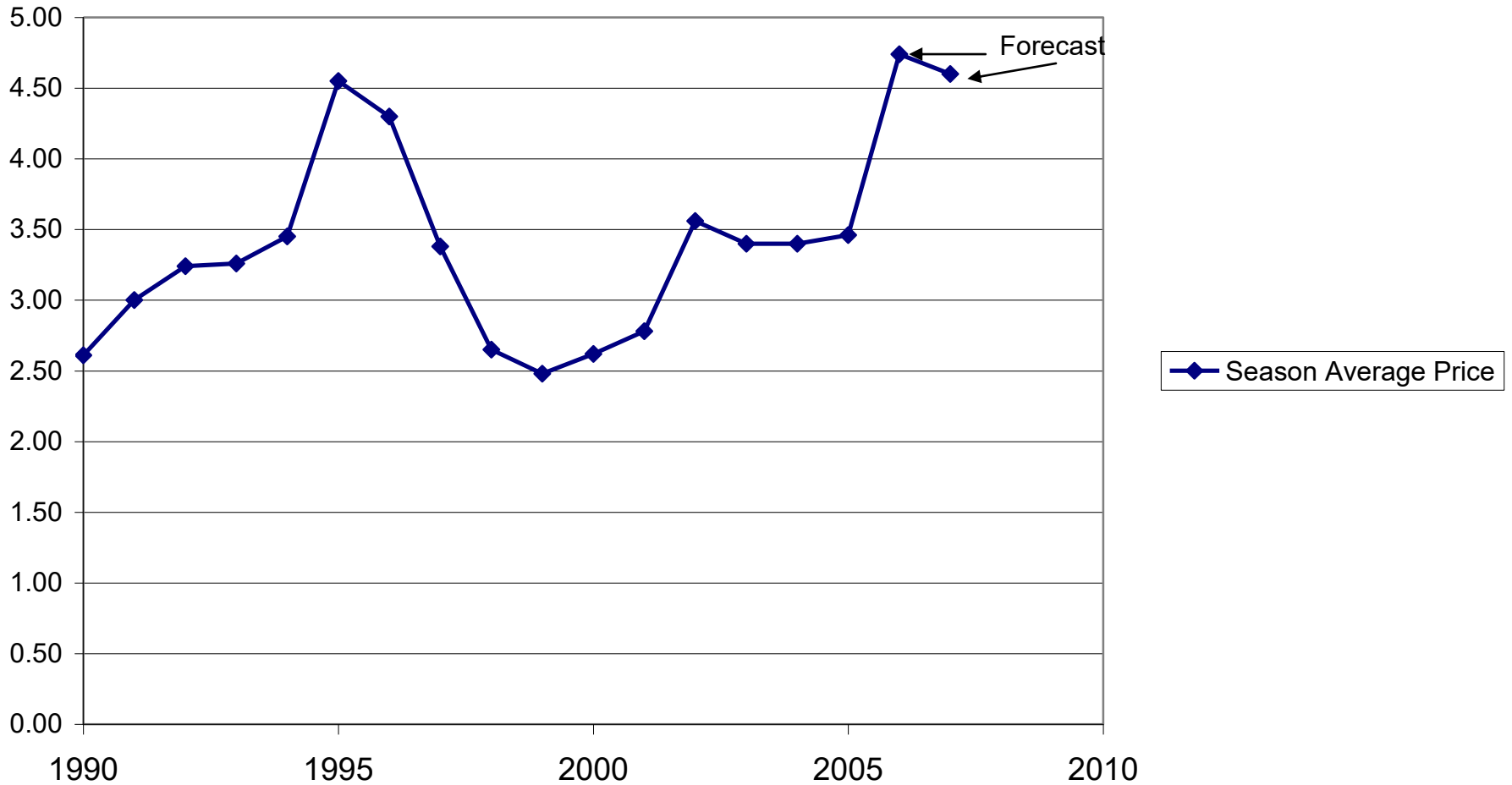
Cotton Market Prices and Support Levels



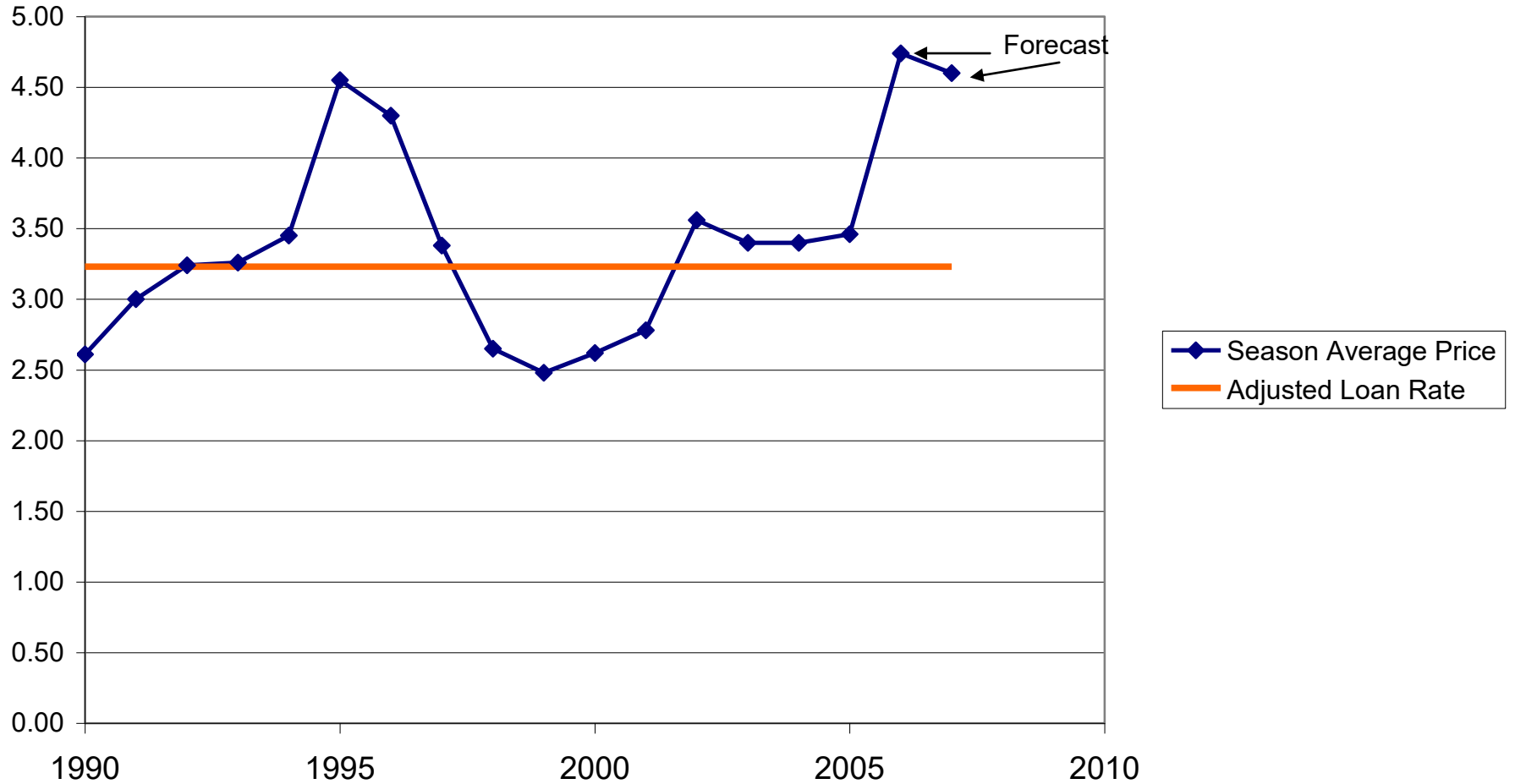
Structure of Program Payments for Corn



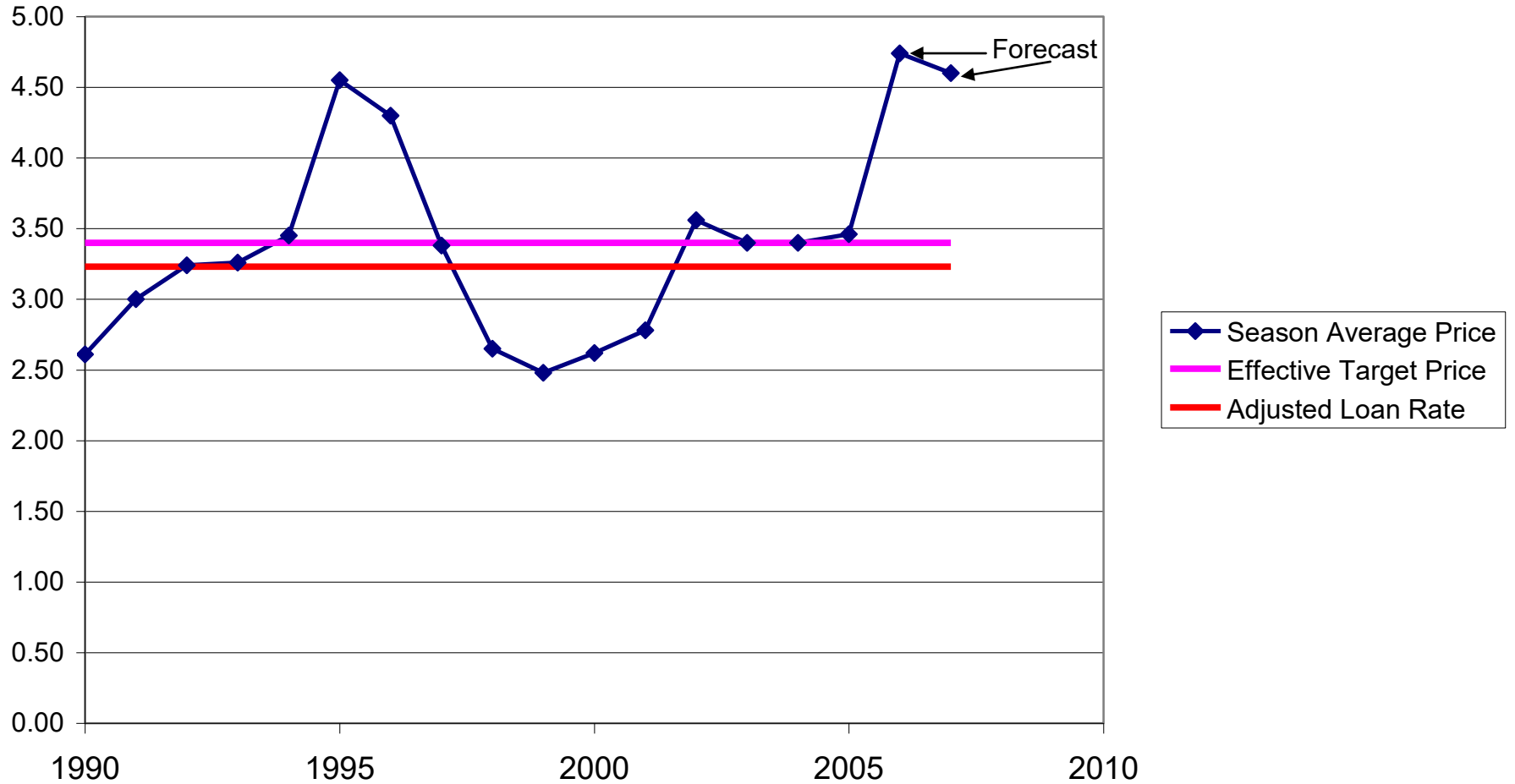
How Market Oriented Are U.S. Wheat Farmers?



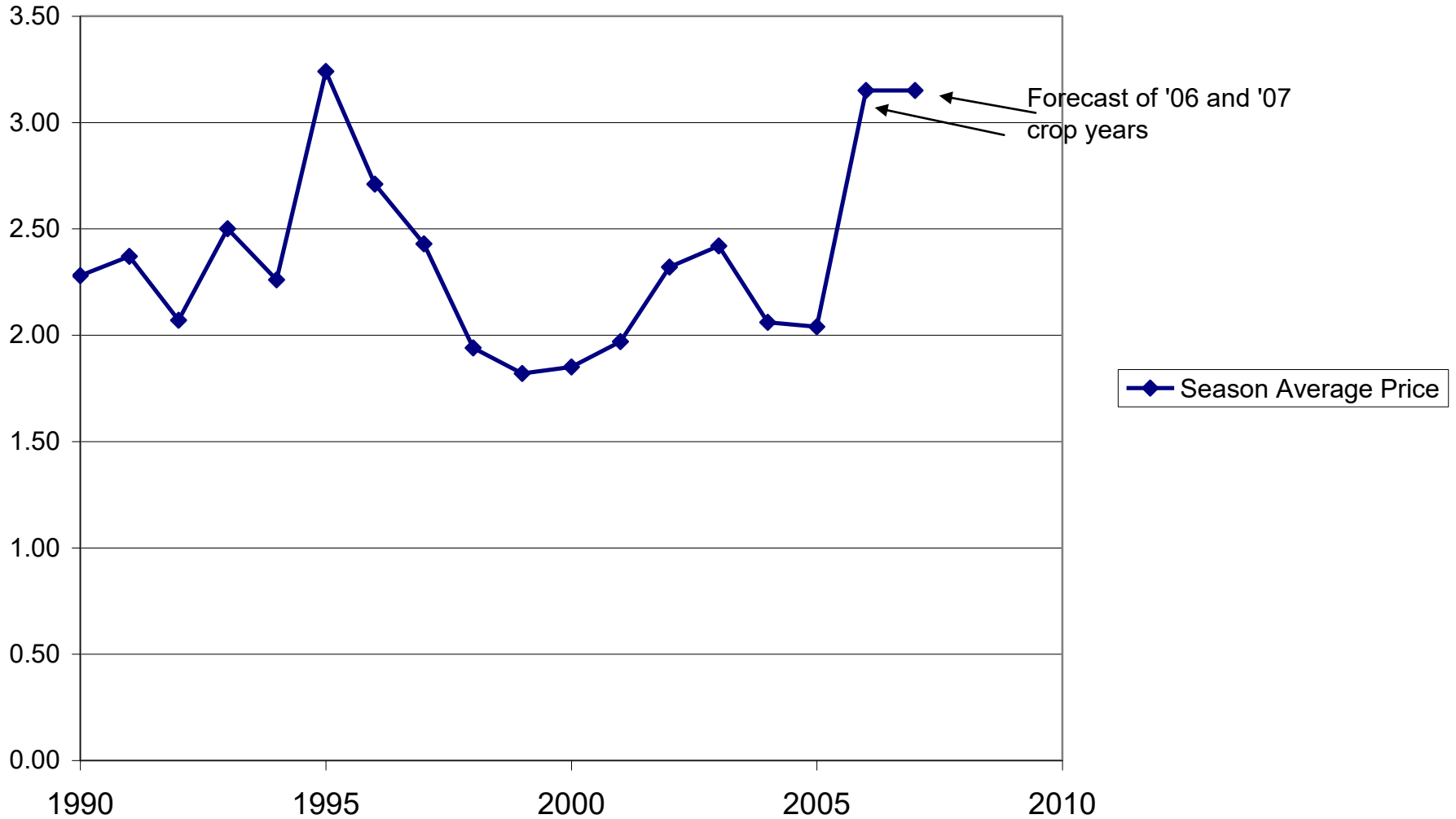
How Market Oriented Are U.S. Wheat Farmers?



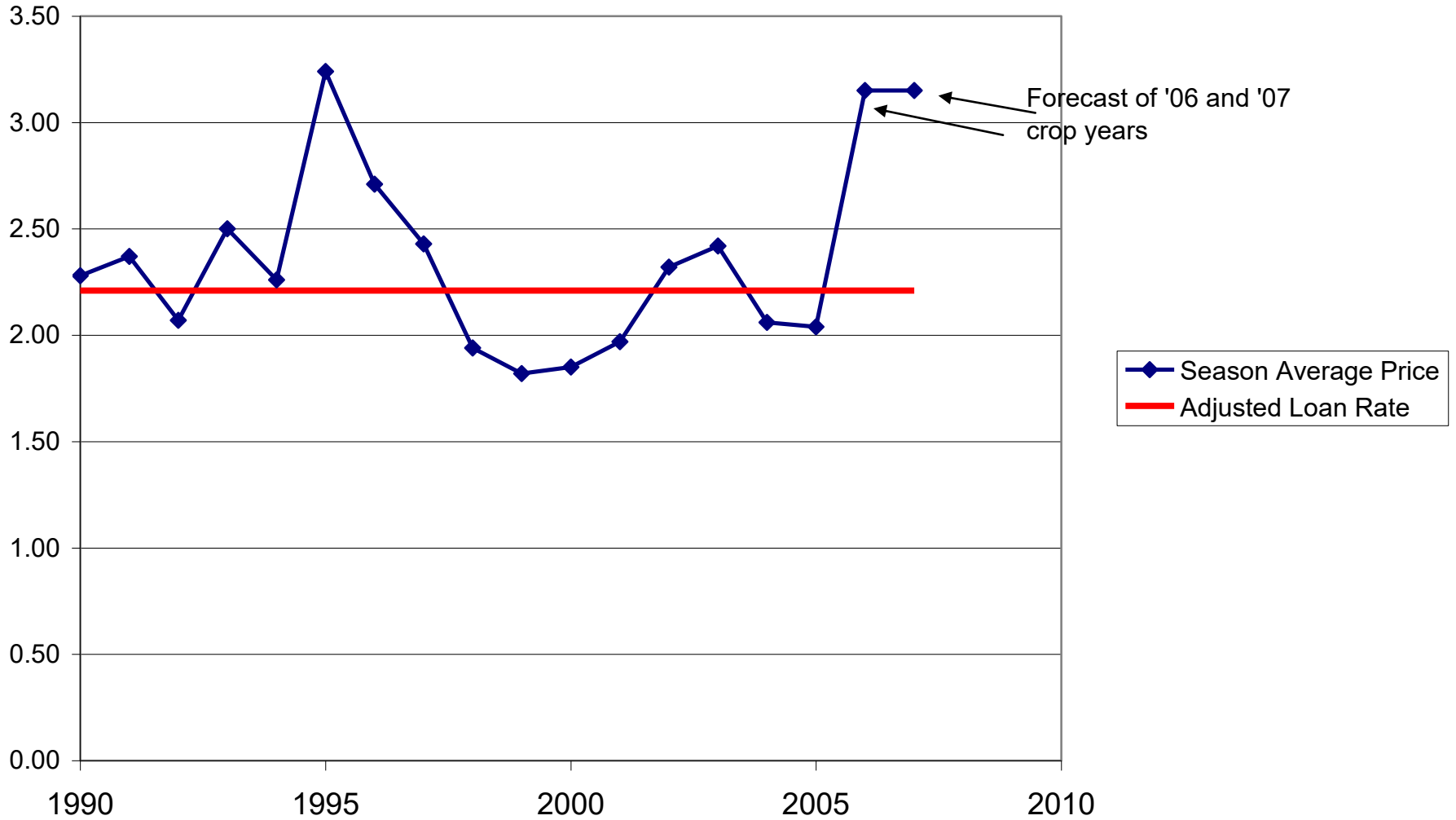
How Market Oriented Are U.S. Wheat Farmers?



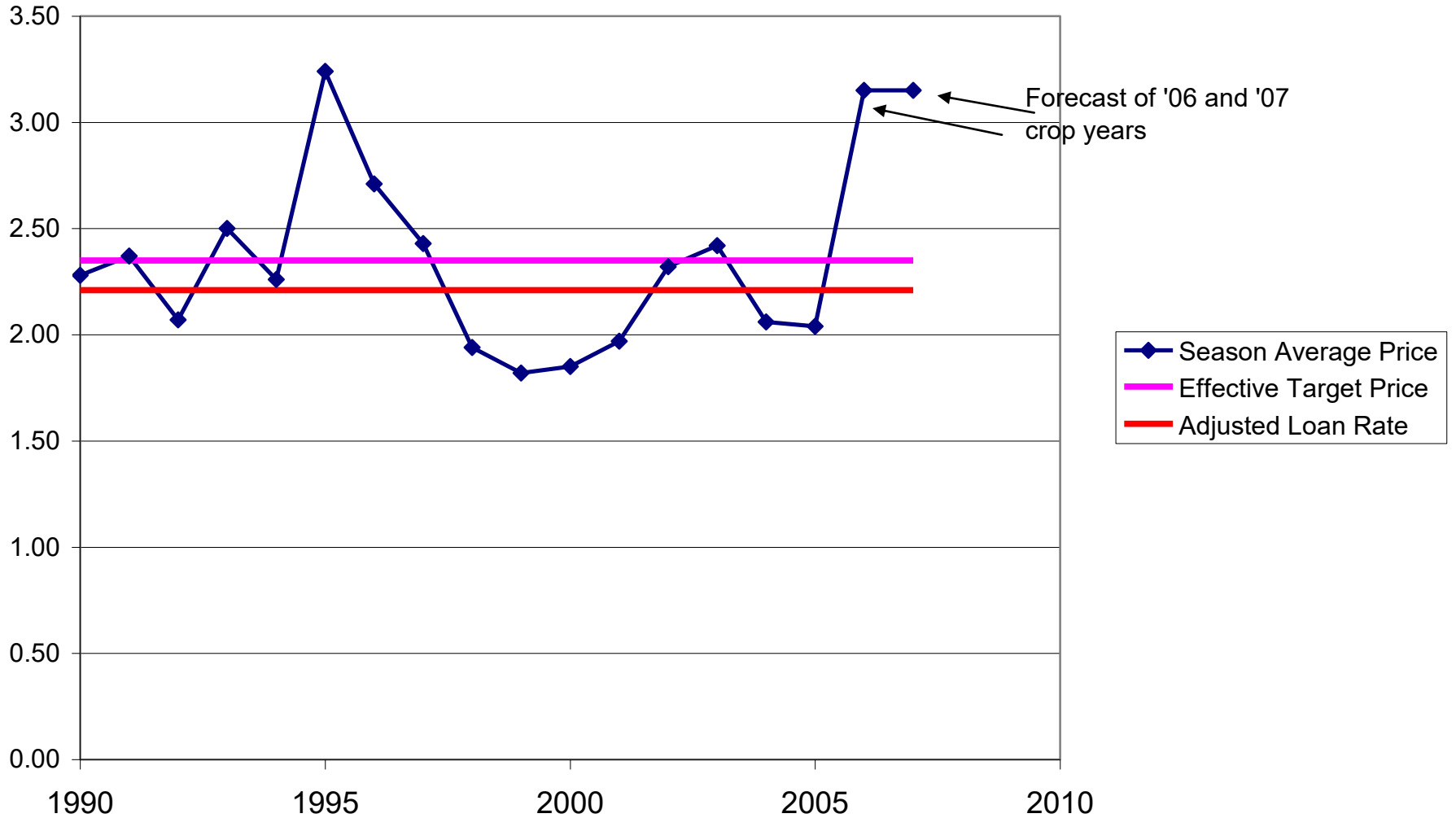
How Market Oriented Are U.S. Corn Farmers?



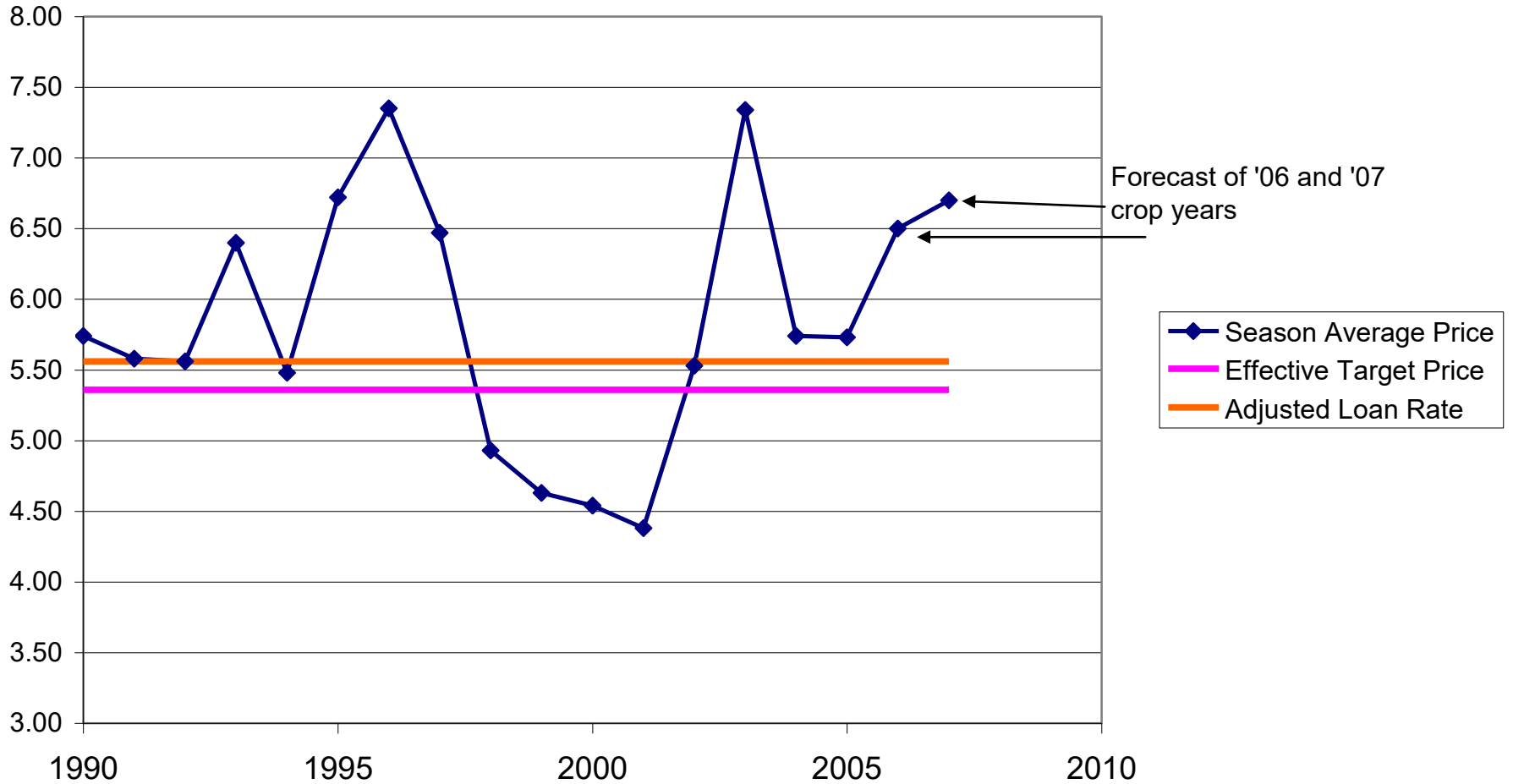
How Market Oriented Are U.S. Corn Farmers?



How Market Oriented Are U.S. Corn Farmers?



How Market Oriented Are U.S. Soybean Farmers?



Current Situation

- Corn, soybean and wheat farmers will receive only direct payments in 2006 and 2007
- Cotton farmers will still receive high payment levels
- Livestock receives no support, but will be hurt by high feed costs

Who Determines Farm Bill?

- Congress writes a farm bill by balancing interests of commodity groups, environmental groups, and nutrition advocates
 - Southern U.S. legislators have disproportionate influence on commodity programs

Three Farm Bill Options

- A simple renewal of current commodity programs
- “Rebalance” target prices
- Reform farm programs

Renew Commodity Provisions

- At current prices and projected prices, only cotton and rice farmers would obtain payments
 - American Farm Bureau biggest advocate of an extension
- ❖ Almost no chance that corn, soybeans, and wheat (more than 200 million acres of crops) will support a program renewal

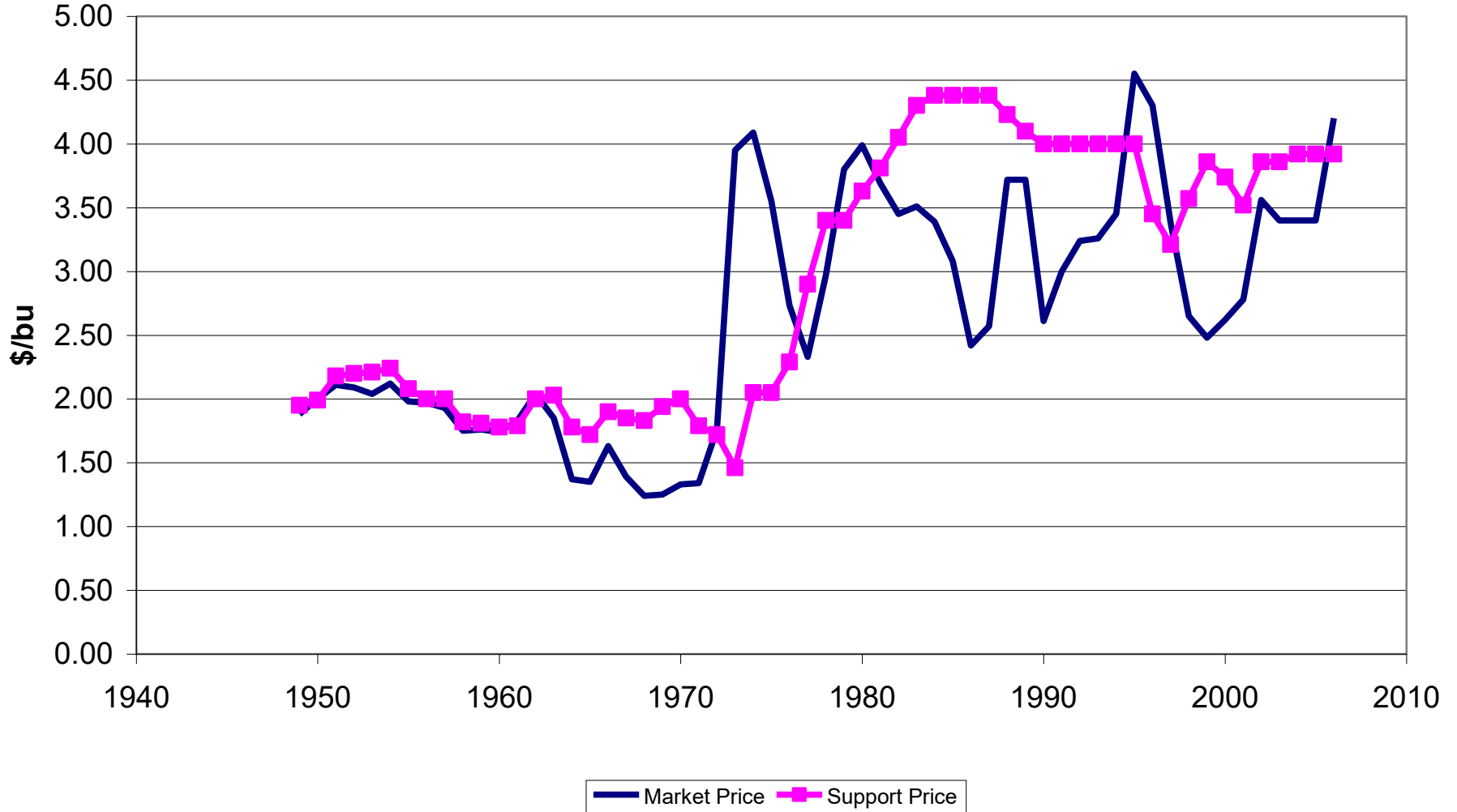
U.S. Farm Bill Payments: 2002 to 2005

	Direct Payments	Countercyclical Payments	Marketing Loan Payments	Total	2005 Acreage (Million)
	(\$ Million)				
Corn	8,464	5,743	7,614	21,821	81.8
Soybeans	2,432	0	333	2,765	71.2
Wheat	4,604	0	209	4,813	57.2
Cotton	2,532	4,500	3,811	10,843	14.0
Rice	1,724	599	1,473	3,796	3.4

Rebalance Target Prices

- American Soybean Association and the National Wheat Growers Association:
 - Higher target prices for wheat and soybeans
- What about rice, cotton and corn?

Wheat Market Prices and U.S. Support Levels



Farm Bill Reform

- Objectives:
 - Better safety net for farmers; or
 - Adequate safety net for farmers and
 - more rural development spending, or
 - more spending on conservation

National Corn Growers Association's Proposal for Two Revenue Programs

- Green Box Income Insurance
 - Brings a farmer up to 70% of a five year Olympic average of net income on a crop specific basis
- Target Revenue Program
 - Gives every farmer a modified Group Risk Income Insurance policy at the 100% percent of county target revenue
 - County target revenue = effective target price x expected county yield
 - Maximum payment when county revenue falls below 70% of county target revenue

What Prices to Use?

- Effective Target Prices for 2002 Farm Bill

Wheat - \$3.40/bu

Soy - \$5.36/bu

Peanuts - \$0.2295/lb

Cotton - \$0.6573/lb

Grain sorghum - \$2.22/bu

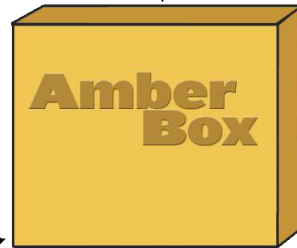
Corn - \$2.35/bu

Oats - \$1.416/bu

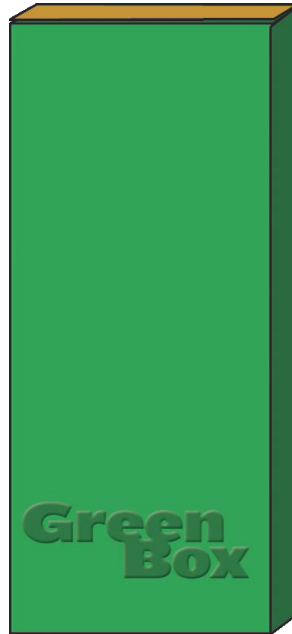
Barley - \$2.00/bu

Rice - \$8.15

Y% of Effective Target Price X Expected County Yield



70% of Effective Target Price
X Expected County Yield



Guarantee = 70% of past
5-year olympic average of
crop-specific income

Impact of Election

- Chair of the House Ag Committee goes to Colin Peterson of Minnesota
- Chair of the Senate Ag Committee goes to Tom Harkin of Iowa
- Winners: Sugar, corn, soybeans, wheat and conservation, country of origin labeling
- Losers: Reform advocates, cotton and rice

Where Will We End Up?

- Baseline budget “score” for current programs will be quite low
- Farm groups will argue for additional money
- Without it, no funds for new safety net or higher target prices.
- With it, easiest policy will be to rebalance target prices, continuing a tradition.