2006 Policy Outlook: Anticipating the 2007 Farm Bill

A Joint Presentation by the Chief Economists of the House and Senate Agriculture Committees:

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Disclaimer on Contents

- This is NOT a consensus document.
- This joint presentation has been done to facilitate the grouping of comments by presenters.
- The positions or statements on a particular slide are those of the presenter noted in the bottom right hand corner of a slide and, if attributed, should be attributed only to him or her.
- Other presenters may or may not agree with the positions or statements on a particular slide.
- Please note, too, that as Committee Economists, we work together frequently, willingly, and with a great deal of respect for one another.

U.S. farm bills

- Primary vehicle for setting medium-term U.S. agricultural policy
  - Range in lifetime from 18 months (1948 Act) to 7 years (1941 Act, 1996 Act)
- Scope of farm bills expanded over time
  - 1981-1990 farm bills separate titles for each commodity; 2002 single commodity title, total of 10
  - Broadened in part to create coalition to pass bill
- Margin of victory shrinking over time
  - Senate passed 1977 Act 63-8; 64-35 for 2002 bill conference report

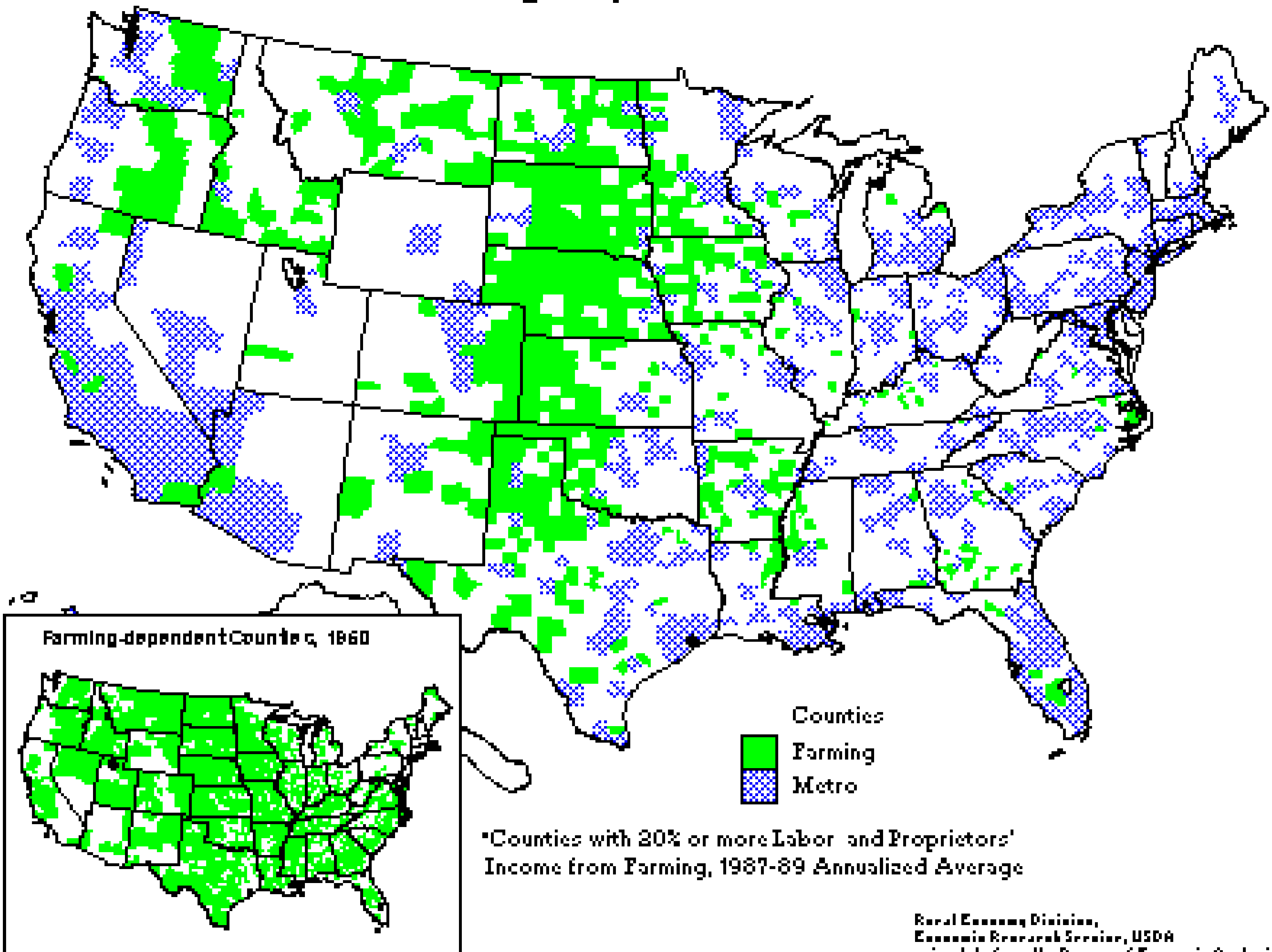
Mercier

Demographic trends

- At the same time that U.S. population has been growing, the number of farmers has been shrinking. During the 20th Century,
  - U.S. population grew 270 percent, while
  - Number of U.S. farms fell 60 percent
- Share of U.S. counties in which agriculture is a significant economic engine is declining
  - In 1950, the vast majority of counties nationwide, except in NE and SW, received at least 20 percent of their income from farming
  - Since 1989, most such counties are located in narrow belt between Eastern Montana and Texas panhandle

Mercier

Nonmetro Farming-dependent Counties*, 1989



Agricultural voting impact

- These demographic changes have had an impact on the farm voting bloc in Congress
- Almost all Senators represent some farmers, but not so in the House
- More than half (221 of 435) of Congressional Districts in 2002 Census of Agriculture had fewer than 1,500 farms (farms w/ >$1,000 market receipts)

Mercier

Reminder: What a Farm Bill Does

1. Provides USDA the authority to operate food and farm programs using provisions specified in the bill. For most programs, the authority to operate is temporary (e.g. 2002 through 2007 crops). A few programs have permanent authority to operate (i.e. until changed).
2. Provides upfront ALL of the funds needed to provide benefits for an Ag Committee "Mandatory" program during its authorized life. Funding can be (a) whatever amount turns out to be needed under specified provisions (i.e. an entitlement) or (b) a fixed annual amount.
3. For some programs, authorizes the appropriation of funds for "Discretionary" programs of the Appropriations Committee programs.
4. Must address "permanent law" provisions of the Agricultural Act of 1949 either through a temporary suspension or repeal. Outdated provisions of the 1949 Act would become effective if no new farm bill or extension were enacted.

Jagger

Key Operational Issue #1: Committee Jurisdiction: Which Committee Is Responsible for a Program Area?

- **The House Ag Committee has PRIMARY JURISDICTION for**:
  - Commodity Programs
  - Conservation Programs
  - Crop Insurance Programs **
  - Agricultural Trade Programs
  - Rural Development Programs (Most funds provided through Appropriations)
  - Agricultural Research (Most funds provided through Appropriations) **
  - Foods Stamps & Selected Other Nutrition Programs
  - Forestry **

- **The House Ag Committee DOES NOT HAVE jurisdiction for:**
  - **Any Appropriated programs** (e.g. USDA salaries & expenses, most research)
  - School lunch and other child nutrition (Senate Ag does have jurisdiction)
  - Immigration (e.g. agricultural labor policies)
  - Taxes (e.g. tax-related energy & safety net policies)
  - Trade Laws (e.g. trade agreements)

** May or may not be included in a farm bill. Often addressed in separate bills. **Jagger**

Key Operational Issue #2:
Baseline Funding: Does the baseline assume funds continue for a program or is new funding needed?

- Congressional budget rules provide for a "baseline" that assumes program provisions and funding continue as in effect on the last day of a program's authorization (for programs meeting the $50 million rule).
- If funding for a program is stopped before the last day of authorization, no baseline funds are provided.
- This baseline money is the MAIN SOURCE of funds available to write a new farm bill.
- Other potential sources of money:
  - Add money to the baseline in the budget resolution
  - Cut another existing program.
- The baseline is the benchmark from which changes in costs for changes in laws are "scored" by the Congressional Budget Office

Jagger

Programs Under HAC Jurisdiction **Status as of May 15, 2006** ***** May be addressed in farm bill or in separate bills.***	**Baseline Funding Available to Continue Program?**	**Permanent Authorization– Prog Automatically Continues?**
1. Food Stamps	YES	no
2. Most Commodity Programs	YES	no
a. Milk Income Loss Contracts	no	no
b. Peanut Storage Costs	no	no
3. Most Conservation Programs	YES	no
a. Small Watershed Rehab Prog.	no	YES
b. Ag Management Asst. Prog.	no	YES
4. Trade Programs	YES	no
5. Crop Insurance **	YES	YES
6. Research: Init. Fut. Ag & Food Sys **	YES	YES
7. Renewable Energy Program	no	YES
8. Most Rural Development Programs	no	YES

** *Supporters of a program would like a "YES" in both columns*. Jagger

Anticipating the 2007 Farm Bill: Issues Likely to Drive the Process

The Federal Budget

- Total Federal Budget
- Budget for Agriculture
  - With budget reconciliation
  - Without budget reconciliation

WTO Negotiations

- With a Doha Agreement
- Without a Doha Agreement

New Players/Demands

- New Initiatives
- Expand Current Initiatives

Jagger

Overall Budget Outlook

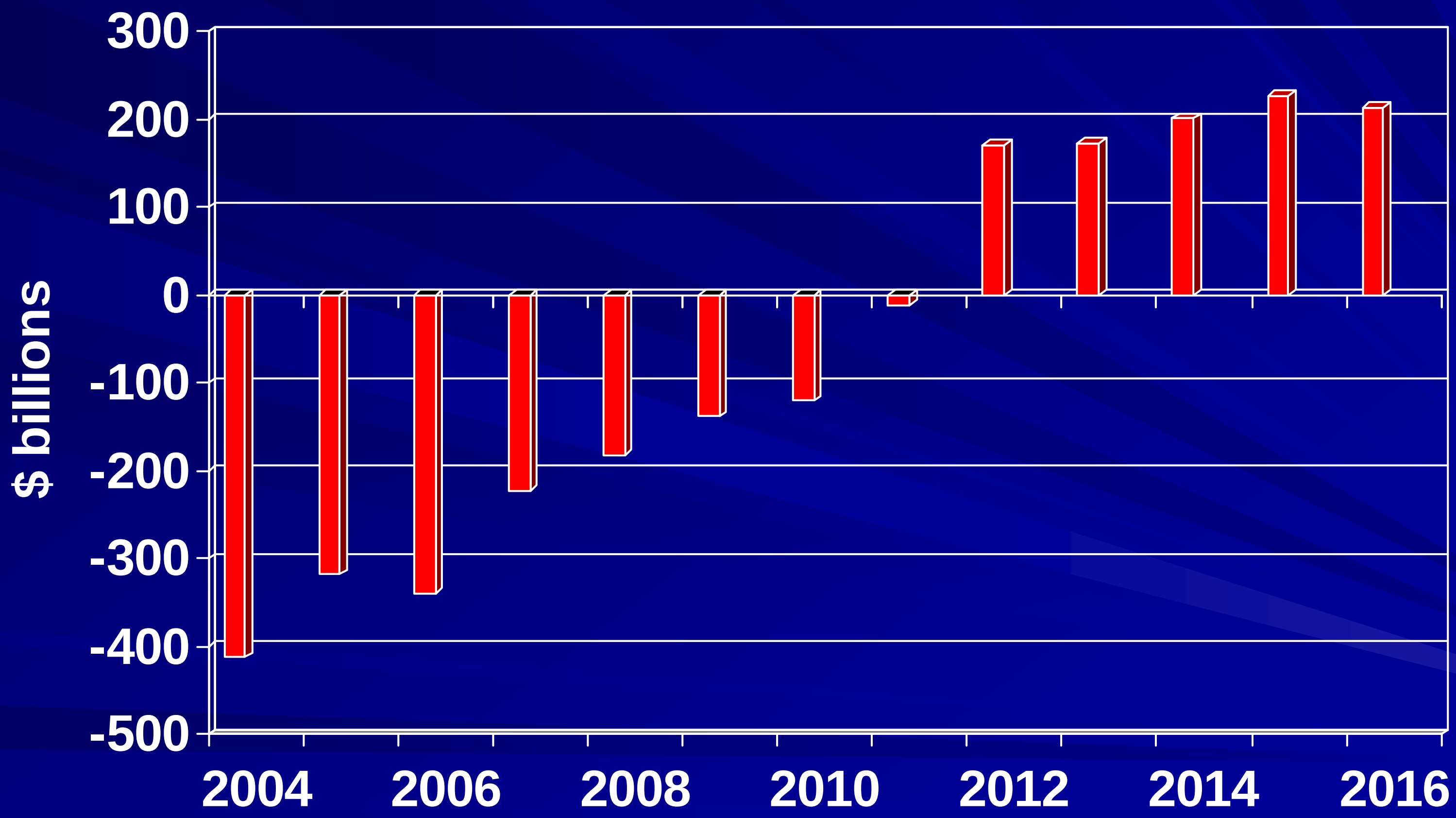
- Budget situation and outlook has determined outlook for farm policy.
- Federal deficits from 1981 to 1995 have led to cuts in agriculture spending in deficit reduction legislation.

Overall Budget Outlook

- Federal surpluses in 1998 through 2001 have provided funding for emergency market loss and crop loss assistance and the Agricultural Risk Protection Act.
- 2001 projected 10-year federal surplus of $5.6 trillion provided $79 billion additional funding to write 2002 Farm Bill, along with $1.3 trillion tax cut.

Conley

Projected Surplus/Deficit(-)
Adj. CBO March 2006 Baseline



Conley

Budget Outlook, $ Billion

Fiscal Year	2007	2007-16
Adj. CBO 2006 March Baseline	-222	308
Iraq, Afghanistan Add'l Cost	-71	-563
Adj. CBO Baseline	-293	-255

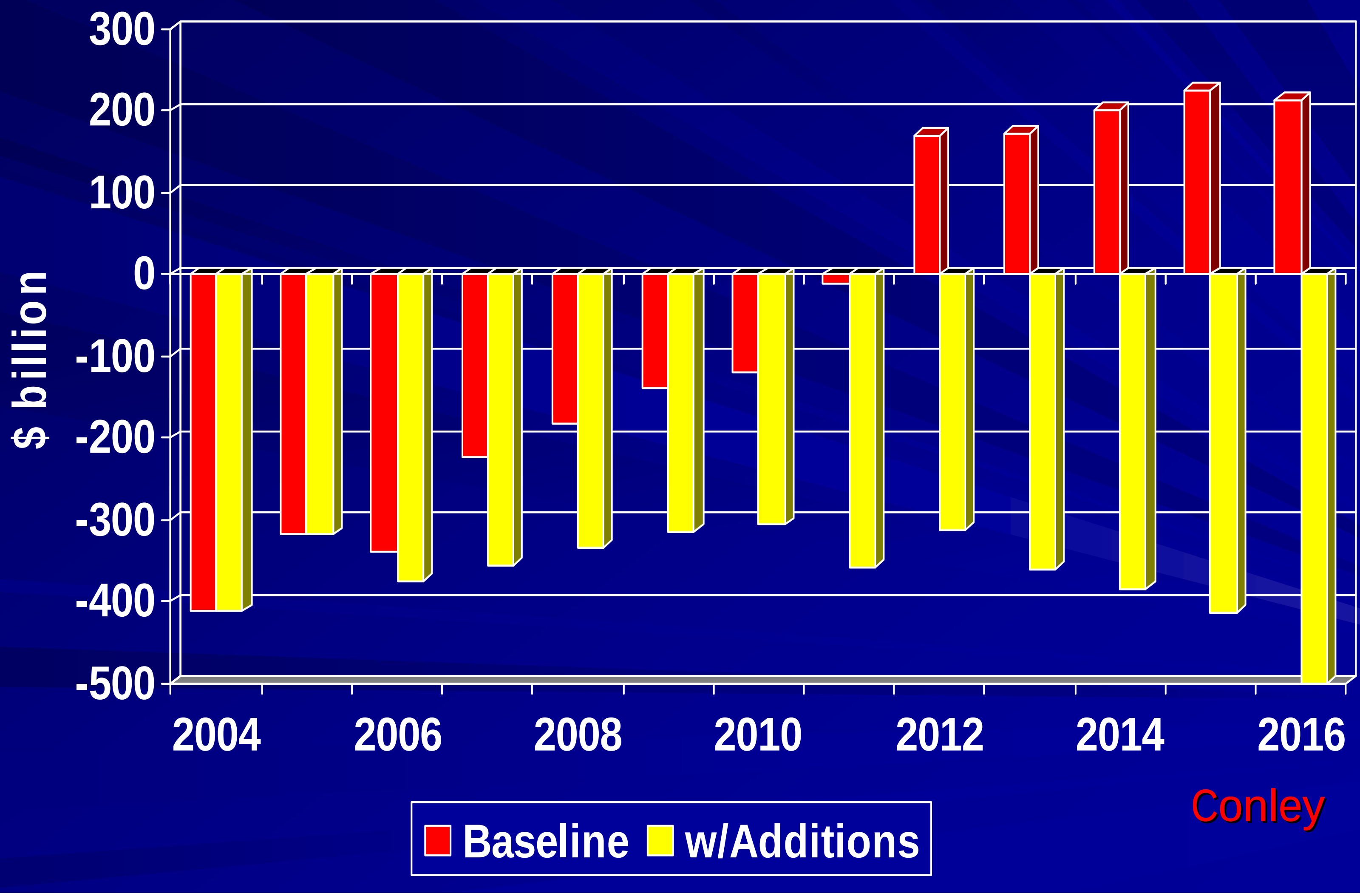
Conley

Expected Additions to Deficit Revenues, $ Billion

Fiscal Year	2007	2007-16
Make Tax Cuts Permanent	-18	-2,011
AMT Repair	-42	-865
Additional Debt Service	-2	-506
Resulting Deficit	-355	-3,637

Conley

Projected Surplus/Deficit(-) Resulting Deficit



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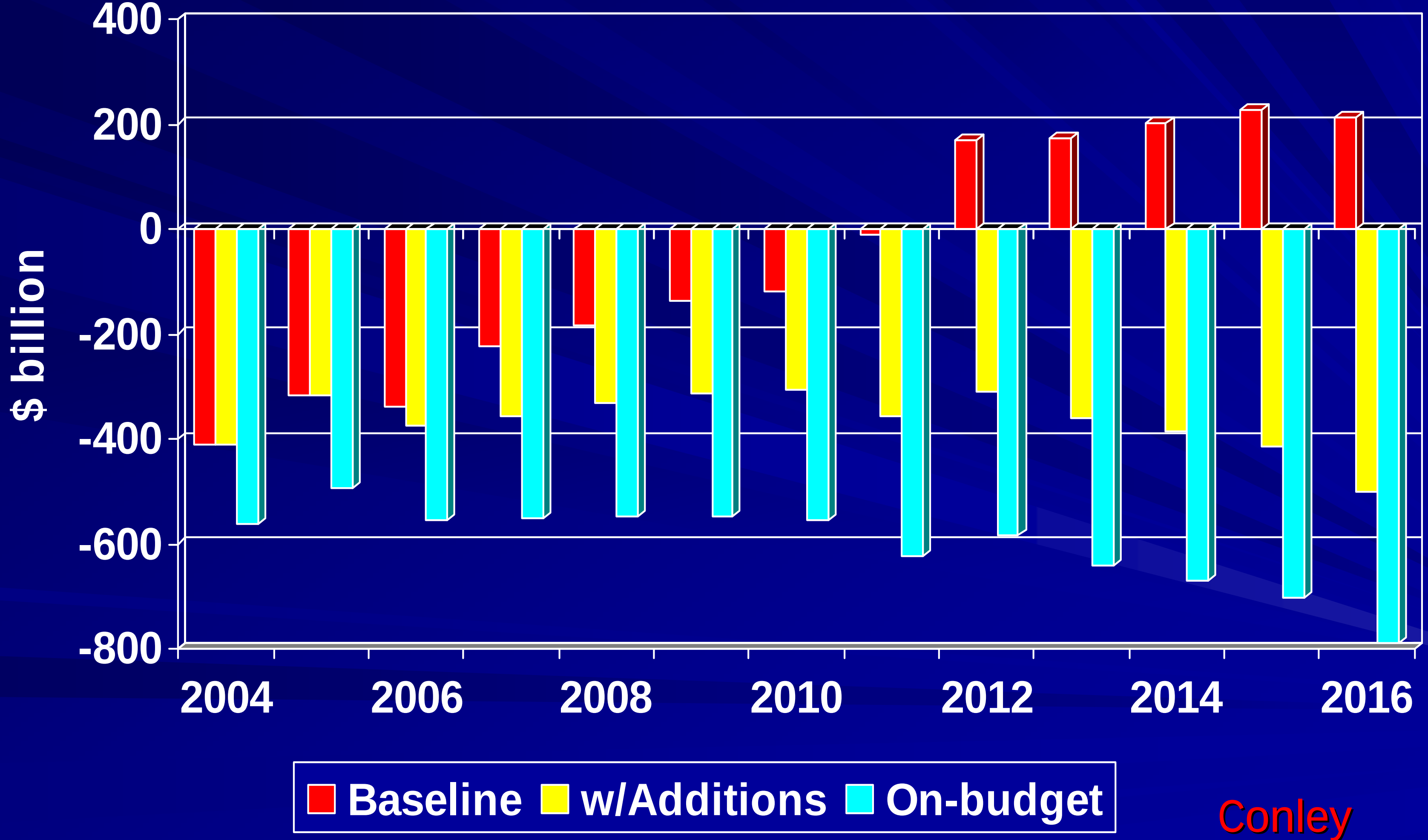
Projected Surplus/Deficit(-)
Resulting Deficit Less SSI Surplus



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Magnitude of Future Deficit Reduction, $ Billion

Fiscal Year	2004-13
Resulting Deficit	-3,442
House-passed Budget 2003	-1,021
Reconciliation	-2,421

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Comparison to 2004 House Budget
$ Billion

Fiscal Year	2004-13
Reconciliation	-2,421
House-passed Reconciliation '03	-259
Multiple of House-passed	9

Conley

Comparison to 2004 Budget Reduction for Ag, $ Billion

Fiscal Year	2004-13
House-passed Ag Reconciliation ‘03	-18.6
Ag’s share of Reconciliation	7%
Future Agriculture Reconciliation	-169
Share of 2002 Farm Bill	39%

Conley

Recent Changes in the Federal Deficit Outlook

FY 2004		FY 2005		FY 2006	
President Proposed 1/	Actual	President Proposed 1/	Actual	President Proposed 1/	Estimated Actual 3/
-$478 B	-$413 B	-$365 B	-$318 B	-$371 B	-$296 B
-4.2% 2/	-3.6 % 2/	-3.2% 2/	-2.6% 2/	-2.8% 2/	-2.3%

1. CBO estimate of the President's proposed budget, including requests for emergency supplemental appropriations and other proposals, for the fiscal year already underway, e.g., the FY06 estimate is based on the budget request made in February, 2006.
2. Federal budget deficit as a share of GDP.
3. OMB July 2006 estimate.

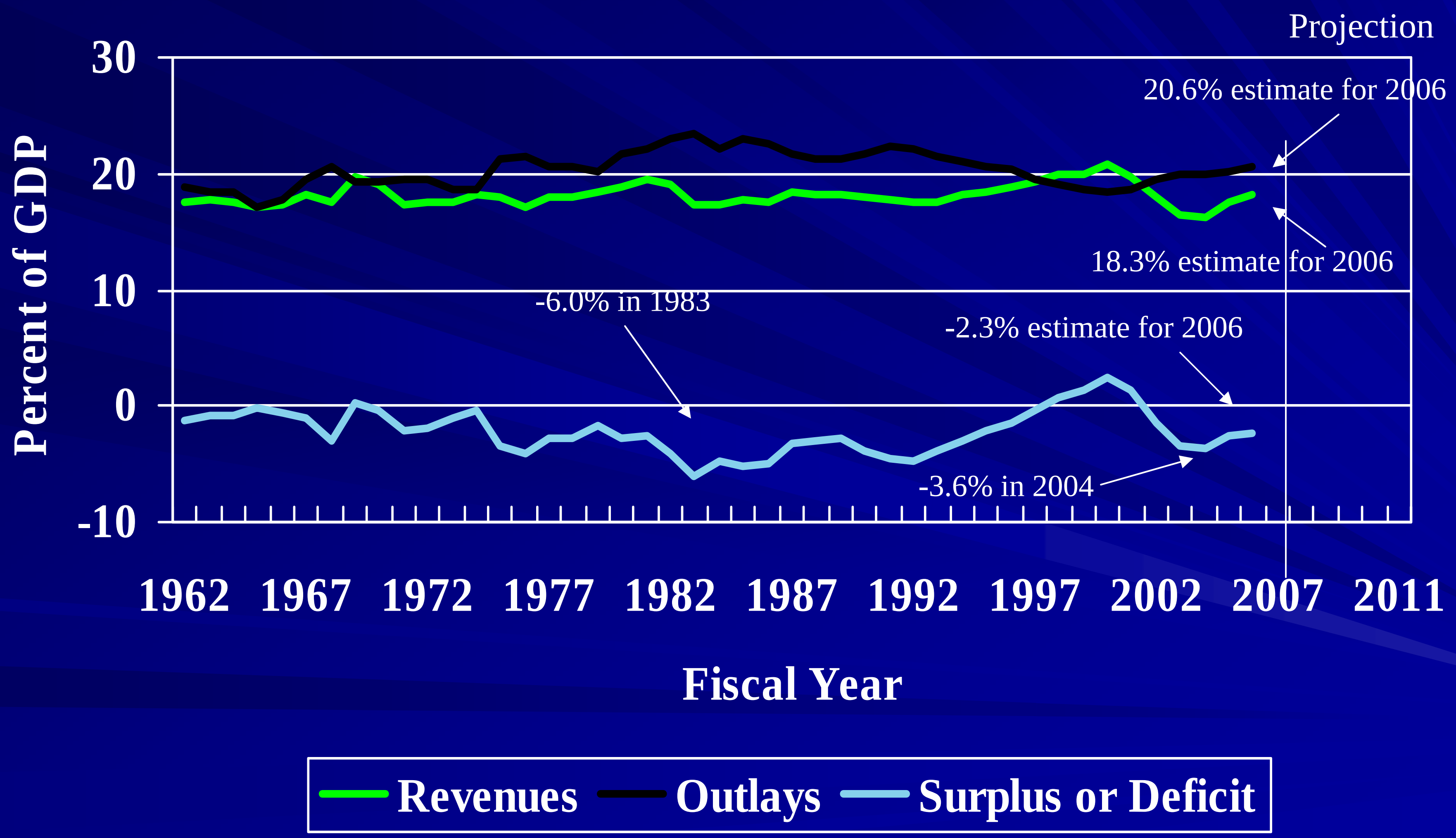
Morton

Senate-Passed FY 2007 Budget Resolution

- Assumes the President's February 06' request for $92 billion ($94.5 billion was enacted) in emergency FY06 supplemental appropriations for Iraq and Afghanistan war costs, hurricane relief, etc.
- Caps non-emergency discretionary appropriations at $882 billion, a 4.7 percent increase over FY06 and $9 billion above the President's request.
- Limits emergency appropriations for FY07 to $90 billion.
- Assumes extension through FY11 of the 2001 and 2003-enacted tax cuts that under current law are scheduled to expire mostly in FY10.
- Assumes short-term (2006-only) relief from the Alternative Minimum Tax.
- Separately consider legislation for budget process changes, including enhanced rescission authority, aka the line item veto.

Morton

Federal Outlays, Receipts, Deficits as a Share of GDP
A Historical Perspective



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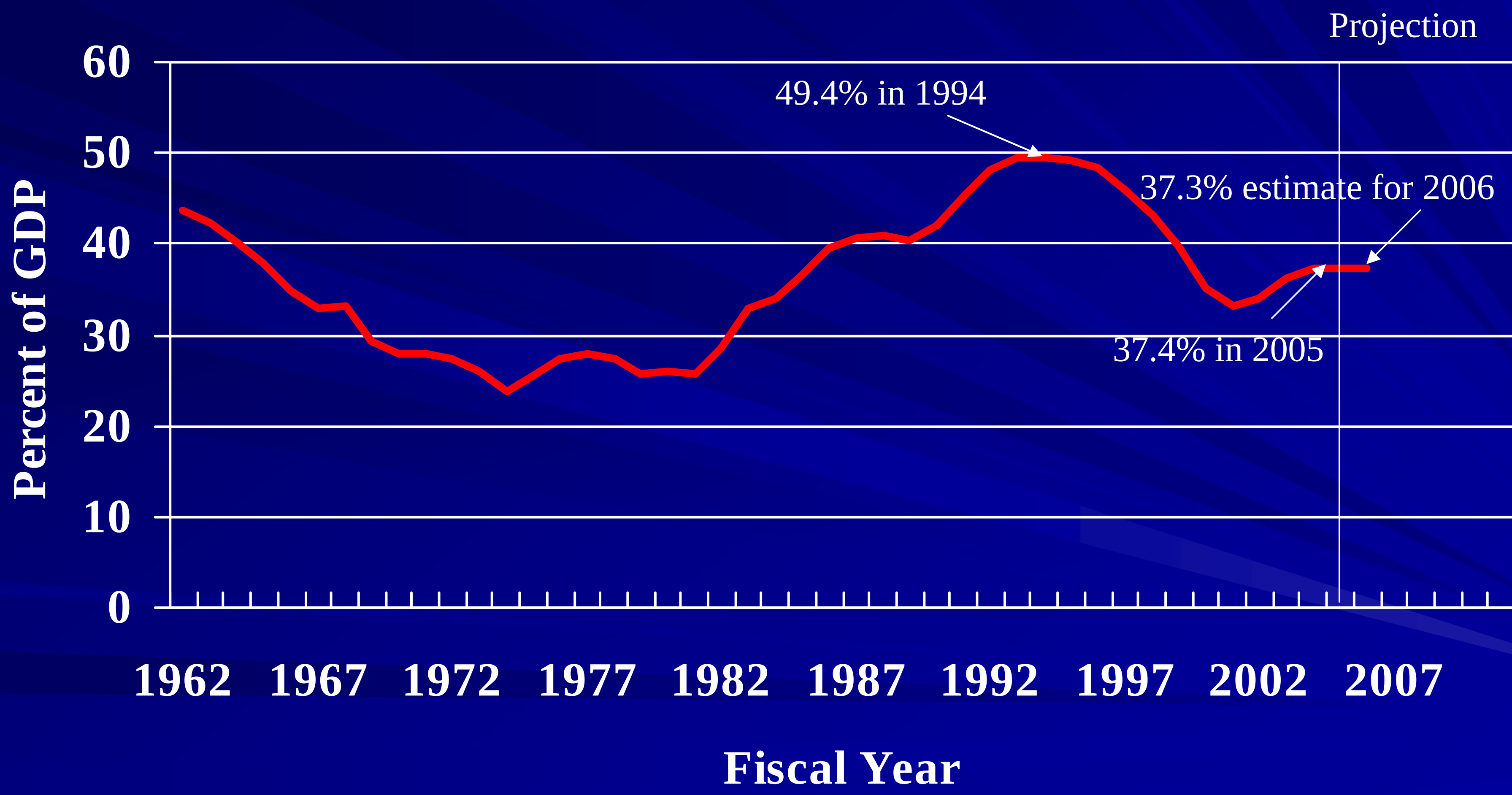
Publicly-Held Federal Debt as a Share of GDP
A Historical Perspective



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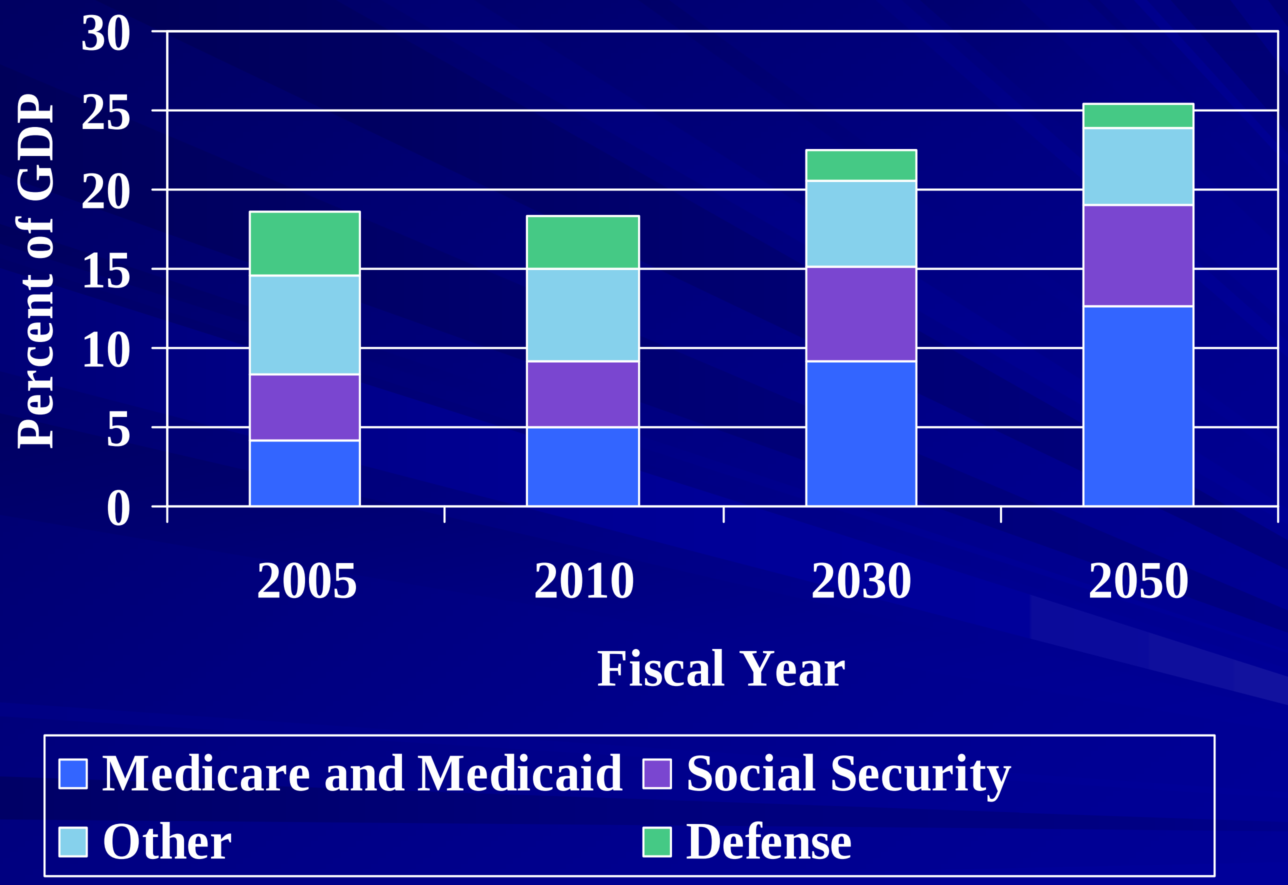
CBO Projected Long-Term Spending, Excluding Interest
Intermediate-Spending Path Assumption



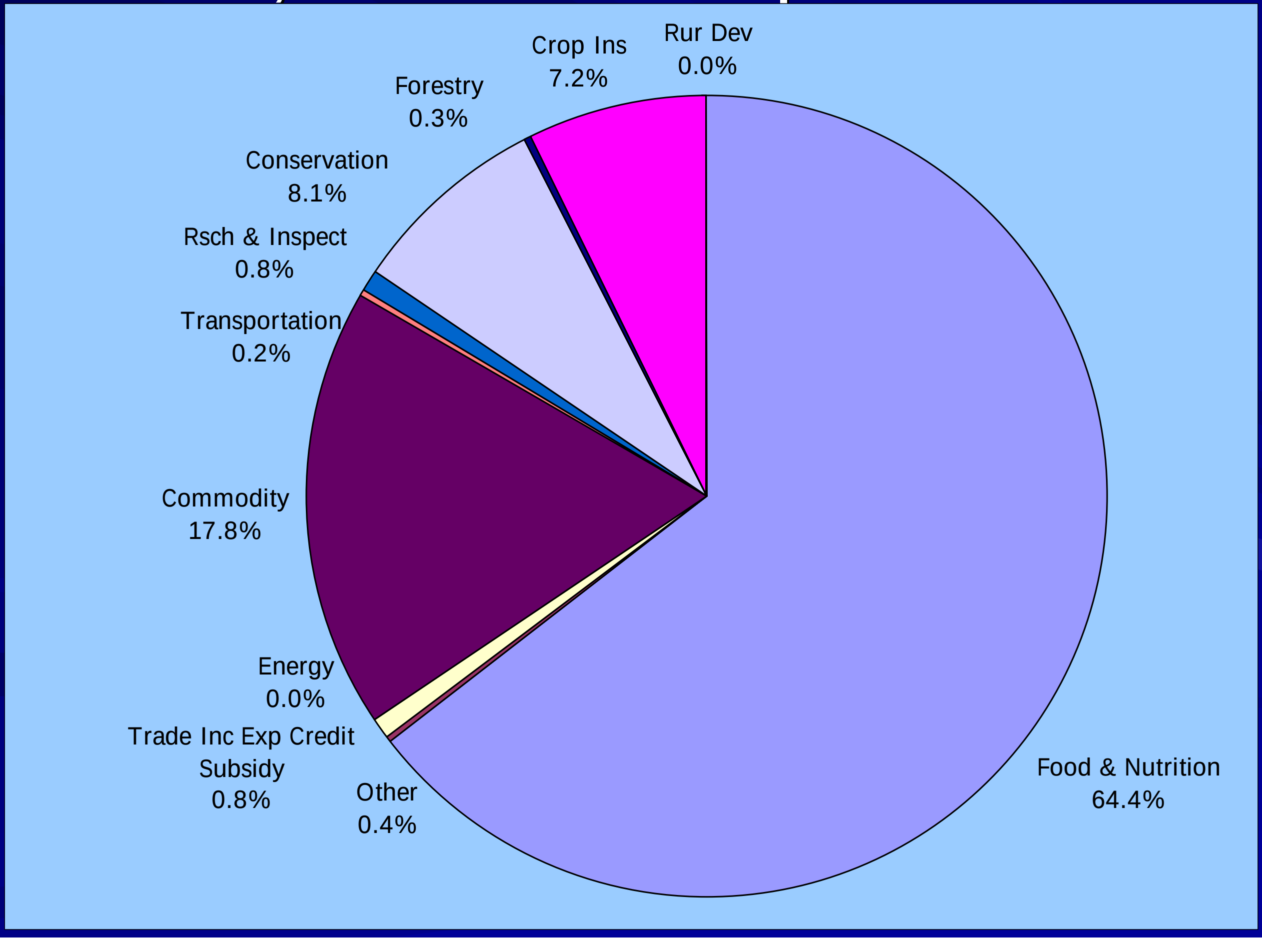
Source: CBO December 2005 publication, "The Long-Term Budget Outlook."

Morton

CBO's Current March, 2006 Baseline: House Ag Committee Funding by Type of Program.

FY 07-16 Outlays for Programs Under House Ag Committee Jurisdiction = **$608 Billion.**

Of this Total, a projected 64.4% is for Food & Nutrition and 33.1% is for Commodities, Conservation & Crop Ins. 2.5% is for Other.



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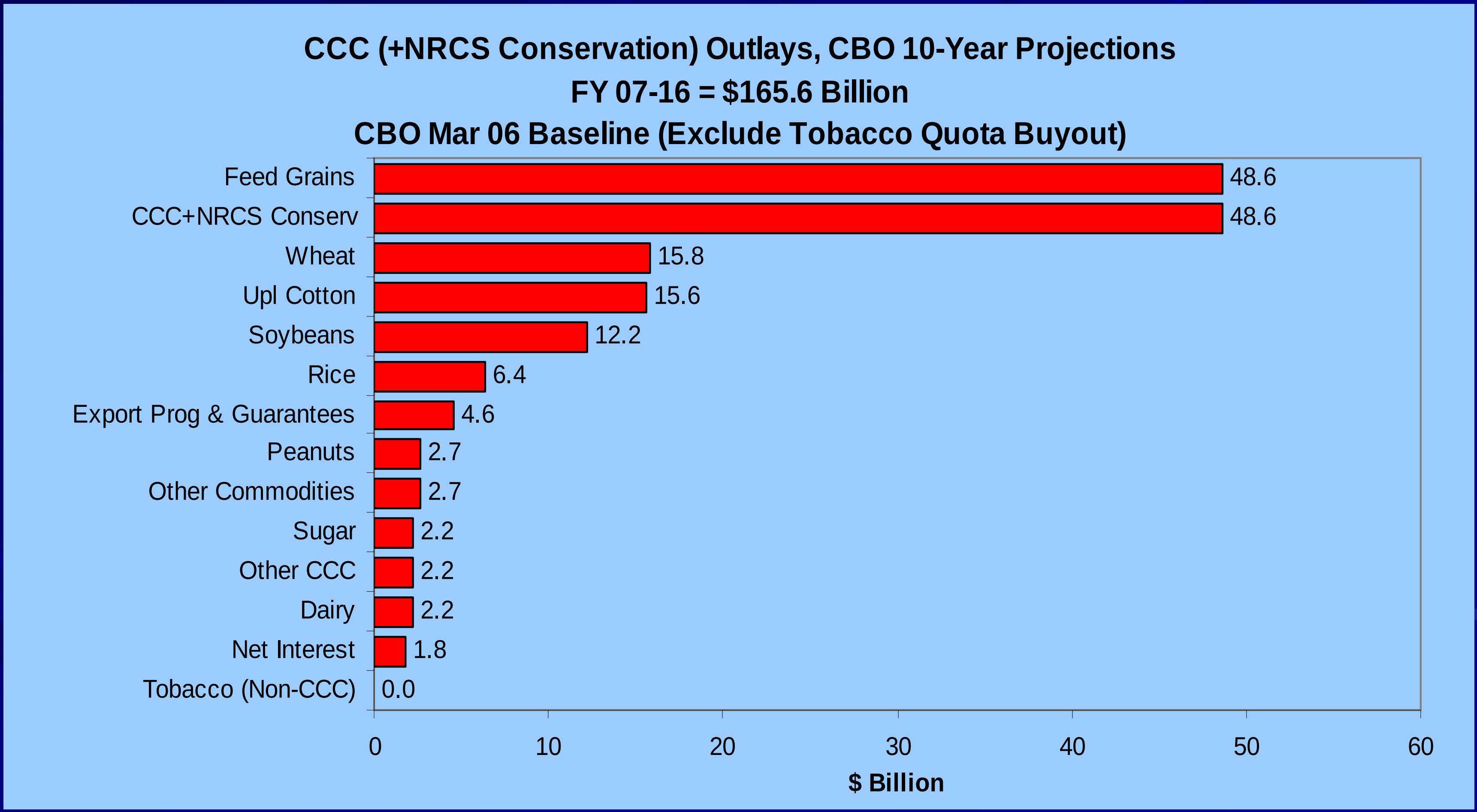
CBO's Current March, 2006 Baseline:

CCC + NRCS Conservation Spending by Crop or Program Area



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What Legislative Changes Are Scored as Changes in Program Costs?

(From the Perspective of Achieving Savings)

- For commodity programs, underlying parameters need to be changed to achieve savings (e.g. target prices, loan rates.) Remember offsetting interactions between variables.
- For some conservation programs, savings are achieved by cutting funding levels. For other conservation programs, program parameters (acreage cap, payment rates) must be changed to achieve savings.
- Only legislated changes count. No credit is given for lower-than-expected costs from changes in market conditions or USDA implementation decisions different than expected.

Jagger

What Legislative Changes Are Scored as Changes in Program Costs?

(From the Perspective of Achieving Savings)

- Under CBO's Probability Scoring, a one-cent reduction in a parameter that depends on market prices provides less than a one-cent savings.
- Cuts must be prospective—e.g., fewer future contracts. Current signed long-term contracts cannot be cancelled or modified to get savings.
- CBO generally does not score savings for enforcement activities.
- Market conditions can impact CBO baseline projections and thus the amount of funding available for possible shifting around.

Jagger

<u>Budget Reconciliation</u>: Many observers expect that the 2007 Farm Bill Will be done in tandem with budget reconciliation.

- Budget Reconciliation for Ag & Most Other committees: share the pain of reducing the deficit by all changing their mandatory programs at once to reduce spending.
- Budget Reconciliation is initiated by including reconciliation instructions in the annual Congressional Budget Resolution.
- The FY 2006 Budget Resolution establishes a sense of Congress that reconciliation be done every two years.
- FY 06 Reconciliation Conference Instructions were to Reduce HAC Spending by $3 billion over 5 years (1% of HAC Total spending). Final Reduction = $2.7 billion.
- Some Prior (and Current) Budget Reconciliations Affecting Agriculture: 2005/2006, 1995, 1993, 1990, 1989, 1987
- The 1990 and 1995 farm bills were done in tandem with budget reconciliation.

Jagger

Average Annual Proposed Ag Cuts in House & Senate Reconciliation Instructions Since 1990 Have Varied from $74 Million to $6.9 Billion. Annual Average = $1.9 Billion

Fiscal Year

2006: H: $5.3 billion over 5 yrs. Annual average: $1.06 billion.
S: $2.8 billion over 5 yrs. Annual average: $560 million.

2005 House bill (dropped in conf.):
H: $0.37 billion over 5 yrs. Annual average: $74 million.

2004 House bill (dropped in conf.):
H: $18.6 billion over 10 yrs. Annual average: $1.86 billion.

1996: H: (Total Outlay Limit)
S: $48.40 billion over 7 yrs. # Annual average: $6.92 billion.

1994. H: $2.95 billion over 5 yrs. Annual average: $590 million.
S: $3.17 billion over 5 yrs. Annual average: $634 million.

1991. H: $13.63 billion over 5 yrs. Annual average: $2.73 bil.
S: $13.47 billion over 5 yrs. Annual average: $2.70 bil.

 # The FY 1996 budget resolution recommended that $13.4 billion of these mandatory spending reductions come from agriculture programs.

Morton-Jagger

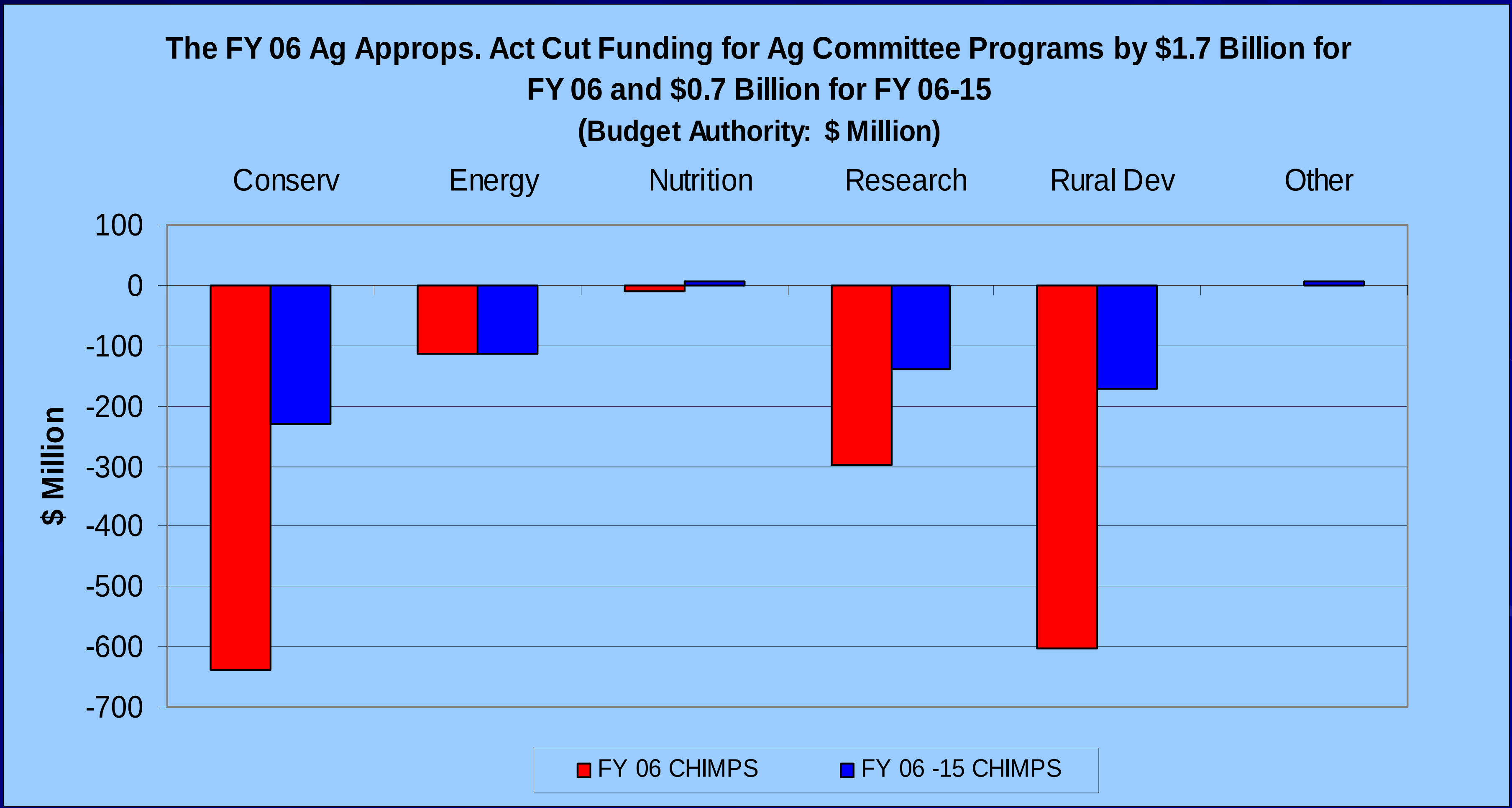
Appropriation CHIMPS. ("*CH*anges *I*n *M*andatory *P*rogram *S*pending" enacted by Appropriations Committees)

- Under Scorekeeping Guideline #3, the Appropriations Committees can limit spending on the Ag Committee's mandatory programs and use the funds saved to increase or maintain spending on their discretionary programs.

- If appropriators continue to take funding from Ag Committee programs to fund their programs (ag or otherwise), how much scarce Ag Committee funding should be put into rural development, research, energy, selected Conservation, and other programs that may never be implemented or implemented at dramatically lower levels than intended?

Jagger

The FY 06 Ag Approps. Act Cut Funding for Ag Committee Programs by $1.7 bil. For FY 06 and $0.7 bil. For FY 06-15



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Appropriation CHIMPS for FY 07 will be smaller But will still cut into funding for important programs.

- Earlier this year, the Ag Committee cut $1.25 billion in program funding for programs often used as CHIMPS to help meet the Ag Committee's FY 06 budget reconciliation instructions.
- The House version of the FY 07 Ag Appropriations bill reduces funding for Ag Committee Programs by $592 million for FY 07 rather than $1.7 billion as in FY 06.
- Impact on Conservation Programs:
  - Reductions in the FY 07 House Ag Approps for conservation program funding equals $483 million. BUT even this level averages 21% of FY 07 conservation program funding for WRP, EQIP, CSP, WHIP, FRPP, G&SWC, Dam Rehab, and the Ag Mgmt Assist Prog.
  - NOTE: When reductions for both conservation technical assistance and CHIMPS are considered, far less program funding is available for producers than the levels provided in the 2002 farm bill would suggest.

Jagger

Bottom Line: Baseline Funding Only (or Less) to Write the 2007 Farm Bill. Many Attempts to Shift Funds:

- Various Groups want additional funding from the likely smaller pie for:
  - Fruits and Vegetables
  - Conservation
  - Rural Development
  - Crop Insurance
  - Standing disaster assistance (Budgeteers have increasingly wanted to tighten up on “emergency” spending—sometimes in recent years requiring offsets from existing programs).

- Concerns with the large amount of program funding spent on conservation technical assistance.

- Pay Limits will be an issue: Pay limits reduce spending either through limiting benefits to larger producers or by limiting eligibility for payments.

Jagger

Doha Development Agenda

- Uruguay Round (1993) envisioned continuing negotiations to further reform agriculture, trade in services in 1999
- Doha Round launched after WTO Ministerial meeting held in Nov. 2001
- Key issue areas:
  - Agriculture
  - Non-agricultural market access
  - Trade in services
  - Implementation issues from Uruguay Round

WTO framework agreement

- Completed in July 2004
- Covers agriculture and other key areas
- Long on principles, short on numbers
- Reflects U.S. priorities of greater cuts from higher levels (harmonization) in domestic support and market access
- No cuts committed, but likely to occur if final deal made

- 2006 WTO Ministerial held in Hong Kong, achieved little concrete progress but did not blow up as did previous Ministerial meetings (Seattle, Cancun)
  - Agreed to end-date for use of agricultural subsidies (2013)
  - Agreed to concrete commitment on market access for least-developed countries
  - Committed to April 30 deadline for agreeing to modalities (firm commitments on broad areas of reform)

Mercier

Current status of WTO negotiations

- Little noticeable progress toward achieving agreement on modalities
- End of July approaching without any new breakthroughs
- Major players seem to be waiting for someone else to step up and make additional concessions
- If no modalities agreement reached soon, unlikely to complete Round by end of year
- U.S. trade promotion authority expires in July 2007
- Low likelihood of TPA renewal, especially if don't have Doha Round Agreement at hand

Consequences of Successful Doha Round: Amber Box

- U.S. proposal would cut amber box ceiling from $19.1 billion to $7.6 billion
  - Other WTO members want U.S. to go further
- Would require changes to domestic programs linked to prices and production
  - Marketing assistance loan program for grains, oilseeds, and cotton
  - Dairy price support program
  - Sugar price support program

Consequences of Successful Doha Round: Blue Box

- 2004 framework agreement would limit blue box to 5% of country's ag. value, but would expand definition to include U.S. CCP's
  - This category not used by U.S. since 1996 Farm Bill, when we ended use of ARP's
  - Would expand definition to include partially decoupled programs (linked to current price but not production)
- U.S. proposal would limit further to 2.5% of country's ag value
  - Current CCP spending maxed at $7.6 billion
  - U.S. proposal would constrain to about $4.7 billion to $5.8 billion depending on a year's total ag value of production
  - Would have to change CCP to fit into this blue box

Consequences of Successful Doha Round: Export Programs

- Likely to see WTO disciplines on food aid—possibilities include
  - Use of in-kind food aid
  - Monetization practices
- Disciplines on export credit program
  - Some reforms already in place due to Brazil cotton case
  - Additional constraint likely to be time period over which export credit programs must be self-financing

Consequences of Successful Doha Round: Market Access

- Average U.S. agricultural tariff is 12 percent, so tariff reductions will not be a problem for most U.S. commodities
- Import sensitive commodities (those with TRQ's) will face more competition
- U.S. proposing only 1 percent of tariff lines receive `sensitive product' protection
- Other WTO members seeking more
  - EU—up to 8 percent
  - G-10 countries—15 percent
- The higher this percentage, the lower the export impact from tariff reductions under market access pillar

Mercier

Consequences of a Stalled Doha Round

- If no agreement by early 2007, Congress will face key decision. Should we
  - Extend major provisions of 2002 farm bill, or
  - Undertake reforms in anticipation of delayed but successful Round
- Farm groups likely to favor status quo
- Pressure from outside groups for change
- Prospect for additional dispute settlement cases against U.S. programs will tilt some toward reform
- Wild card—what will be USDA's position and extent of participation in farm bill debate?

Mercier

More Details on U.S. Proposed Limits to Domestic Support (as they apply to the U.S.)

Changes to Current/Prior Limits:

- Total Aggregate Measure of Support (AMS):
  - Reduce by 60%: from $19.1 billion to $7.6 billion.
- Amber Box product-specific de minimis
  - Reduce by 50%: from 5% to 2.5% of product's value of production
- Amber Box non-product specific de minims
  - Reduce by 50%: from 5% to 2.5% of value of all agricultural production
- Revive the Peace Clause which expired around the end of 2003
  - Litigation protection from challenges under the non-ag subsidy and countervailing duty measures.

Jagger

More Details on U.S. Proposed Limits to Domestic Support (as they apply to the U.S.)

<u>New Limits</u>

- Product-Specific Amber Box Limit
  - New Limit = 100% of a product's 99-01 average AMS level
- Blue-Box Limit
  - Explicitly make U.S. Counter-Cyclical Payments eligible for the blue box
  - New Limit = 2.5% of the value of all agricultural production
- Overall "Trade-Distorting" Support Limit

  = Aggregate AMS support
  + Blue-box support
  + Amber box product-specific de minimis
  + Amber box non-product specific de minimis
  = $22.5 billion

Jagger

Comments on the Overall "Trade-Distorting" Support Limit

- The goal of the WTO is to reduce or eliminate support that is more than "<u>minimally</u> trade-distorting." (Trade-Distorting = increase exports or reduce imports)

- Levels of Trade Distortion for Categories covered by the Overall Support Limit
  - AMS (i.e., amber box, non-de-minimis)--widely accepted as trade-distorting
  - Blue Box (production limiting or (in Doha, "do not require production"))—may be trade-distorting.
  - Product-specific and Non-product specific de minimis—by definition, potentially trade-distorting but not trade-distorting at the de minimis level (2.5% of the value of production).

Jagger

Comments on the Overall "Trade-Distorting" Support Limit (Cont.)

- Because the AMS has a strict binding limit and the Blue Box has a strict binding limit, efforts to further reduce the overall support level are, in effect, efforts to impose de facto limits on de minimis support.
- Imposing limits on minimally trade-distorting support (whether de minimis or green box) could make passing an agreement through the Congress more difficult as some Members will want to replace trade-distorting support with non-trade-distorting support.

Jagger

Policy Implications: WTO Dimension

- Policymakers must consider trade negotiation proposals in deficit reduction.
- WTO agreement & limits may lead to changes in program design and form.
- Spending reductions will likely not address all WTO issues.

Conley

WTO Issues for Farm Bill

- Brazil-US Cotton Case
- Consumer-supported Commodities
- US Commodity Program Variability
- Current US WTO Proposal & Variability

Conley

Brazil-US Cotton Case

- Step 2 ends 8-2006, Export credits reformed administratively.
- WTO: Direct payments not Green Box: Fruit & vegetable planting prohibition

  --More challenges?

  --Re-categorization to Amber, non-commodity specific?

  Exceed $19.1B limit.
- Commodity-specific limit exceeded with low world cotton prices: Issue for all marketing loan programs.

Conley

Specialty Crop Issues

- WTO ruling on fruit and vegetable planting prohibition may lead to its repeal. This raises income issues among specialty crop growers.
- Specialty crop interests seek CCC funds in Ose-Dooley bill, mostly Green box. Likely accommodation in next farm bill.
- Shifting funds from program crops to specialty crops while reducing overall spending.

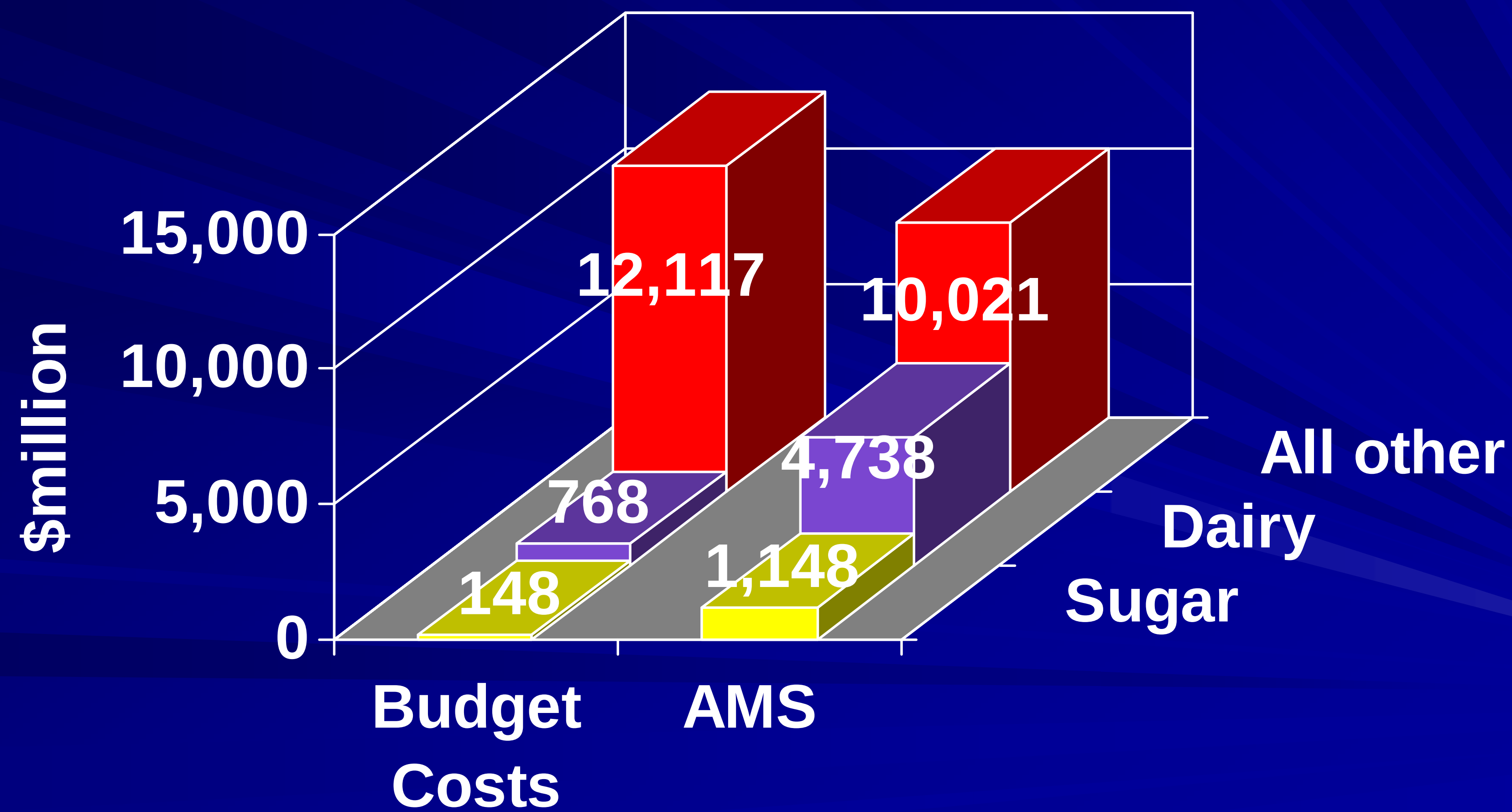
Conley

Consumer-supported Commodities

- Dairy and Sugar must be considered in AMS reduction, if not budget reduction.
- These are not just Market Access issues.
- Cutting AMS will have disproportionate impact on farm income vs. budget cuts.
- How reductions are made has broad policy implications.

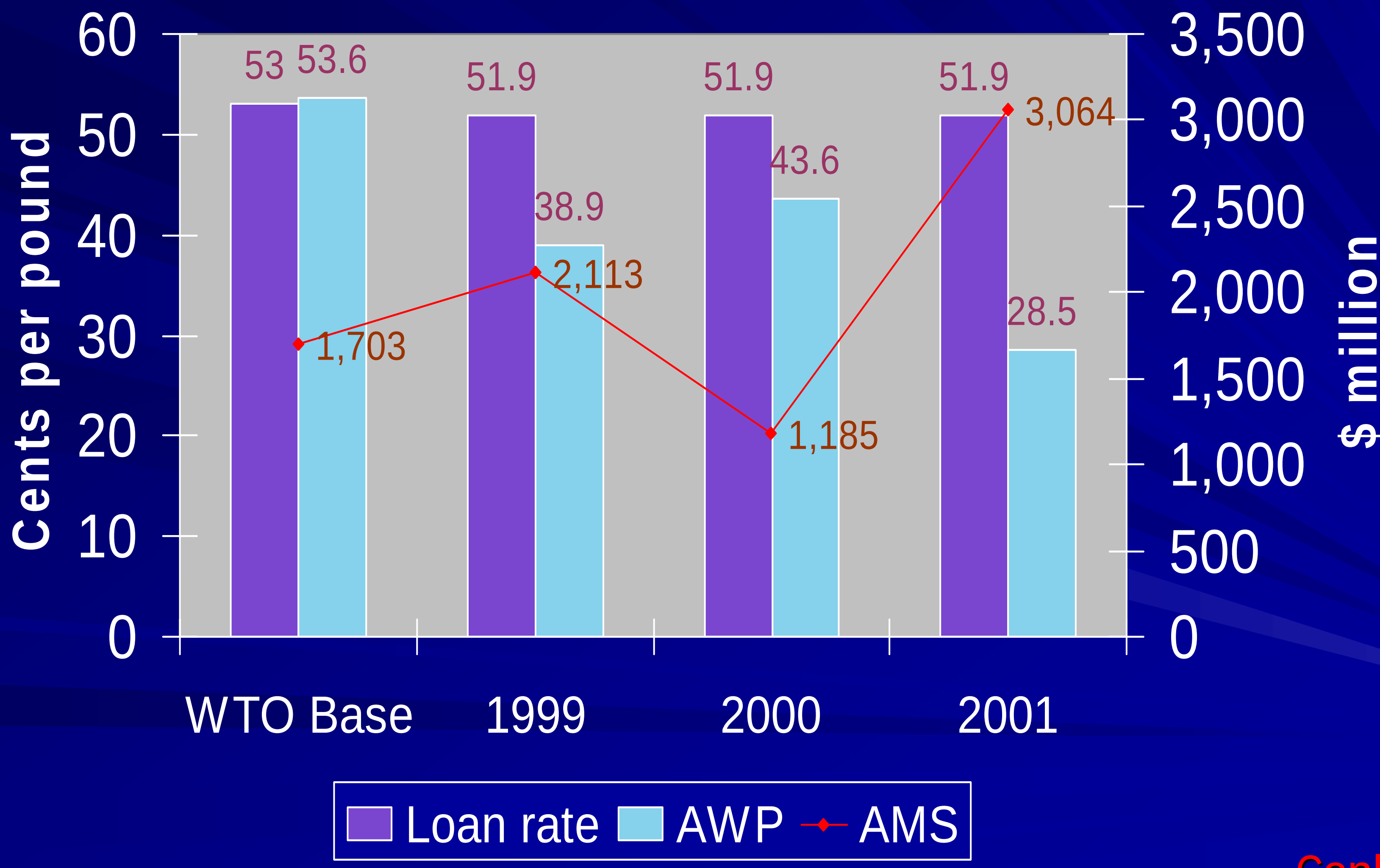
Conley

Commodity Program Costs 1999-2001 Average



Conley

Variability:
US Cotton Prices & Support



Conley

US Commodity Program Variability

- Payments determined by world price.
- FAPRI 9/2005 study: 59% chance US will exceed $19.1B over 2006-14 period under continuation of 2002 Farm Bill.
- Average baseline AMS of $9.4 billion over 2012-14, only $2 bil over proposed $7.6 bil limit.

Conley

Variability & U.S. WTO Proposal

- FAPRI 9/2005 stochastic analysis of impacts of proposal on U.S. agriculture, multilateral adoption.
- Reduced loan rates and support prices until Amber Box $7.6 bil product-specific limit was exceeded only 5% of stochastic outcomes in any one year.
- Loan rates and dairy price support reduced 11%, sugar support 16% to offset forfeitures of additional imports (7.5% consumption)

Conley

Variability & U.S. WTO Proposal

- Average AMS under proposal with 5% tolerance is $4.7 bill 2012-14, 38% below limit.
- Even with 5% tolerance in any year, AMS limit exceeded in 16% of stochastic outcomes 2008-2014.
- Counter Cyclical payments avg $1.5 bil, 69% below $4.8 bil limit.
- 5% tolerance is not part of WTO negotiation.

Conley

Variability & U.S. WTO Proposal

- Alternative proposal to address AMS limits
- Change all LDPs/MLGs to be paid on Season Average Price, not PCP/AWP.
- All payments, CCPs too, made after October 31 so all payments could be reduced equally if required. No advances.
- Effect on commodity marketing, ag lenders?
- Alternative programs? Revenue-based?

Conley

A Few Additional WTO Comments

- Ag Committees will spend significant time in trying to meet WTO requirements—as was done for the 2002 farm bill.
- “Constructive ambiguity” that allows WTO deals to be signed but that may be interpreted in WTO challenges differently than we thought, is a major problem in writing legislation.
- HAC will write the 2007 farm bill to WTO provisions in effect at the time—not to pending proposals.
- Commodity Trade-offs that used to be solely domestic political issues now may be WTO issues
  - Unique provisions for one commodity
  - Different countries are affected when one crop is favored over another

Jagger

Alternative approaches to farm safety net

Farm Income

- Consider whole farm programs such as target revenue that would encompass current program crops, specialty crops, and livestock operations—ensuring 70 percent of revenue would be classified as green box under WTO rules

Conservation

- Continue shift toward providing payments to encourage adoption of conserving practices in agriculture that would clearly fall under green box criteria in WTO rules

Renewable Energy

- Expand reach of renewable energy programs that were included in farm bill in 2002 for the first time

Alternative farm support program

- If Doha Round yields agreement, may be difficult to fit existing program structure inside amber, blue box commitments
- Many farm groups looking at switching to target revenue approach
  - WTO rules permit providing revenue-based support up to 70 percent of farmer's income to be reported as green box
  - May utilize amber or blue box countercyclical program as overlay on top of target revenue

How would it work?

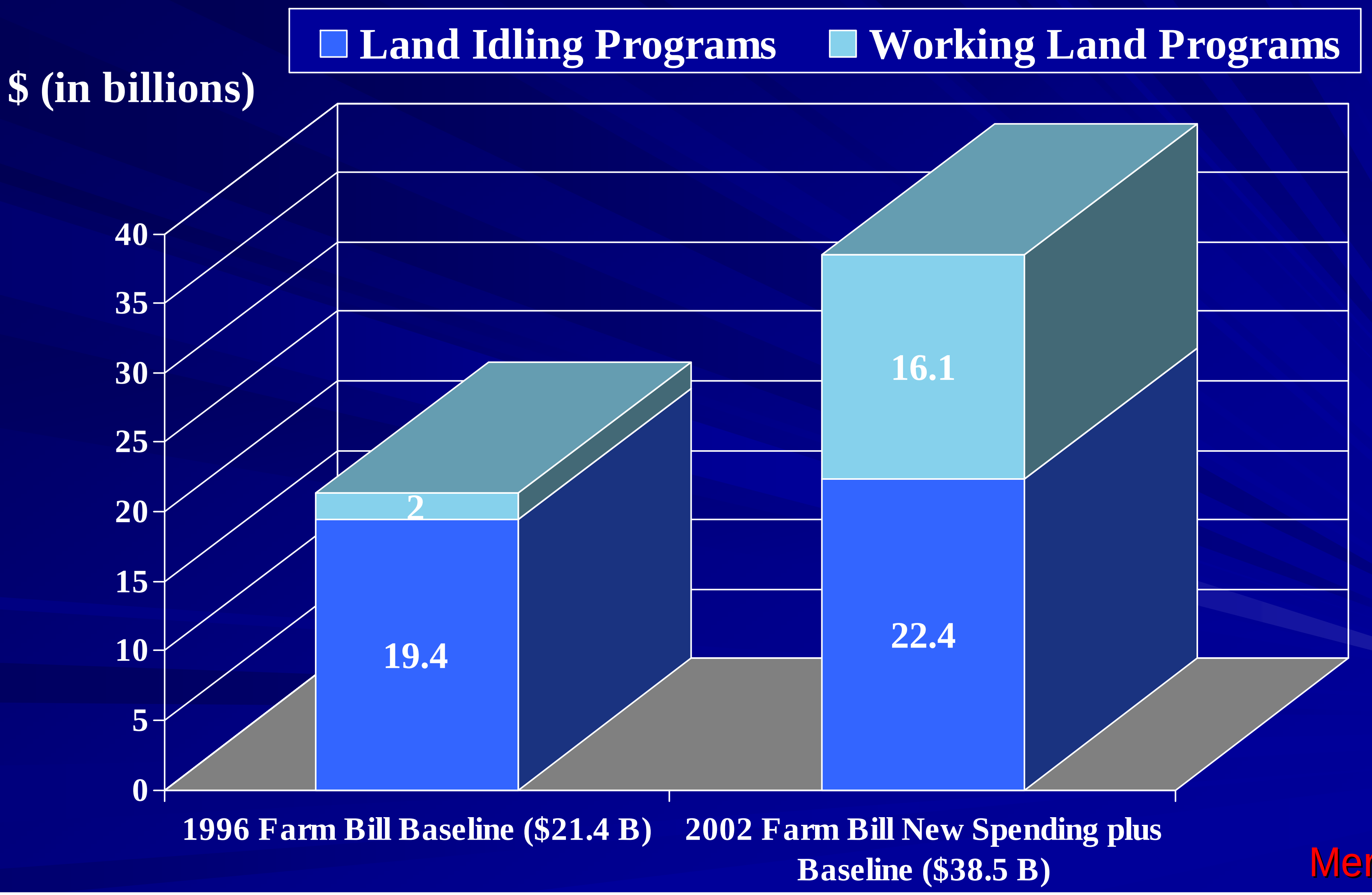
- Crop-based revenue or whole farm revenue?
- Stick with program crops, or widen to include livestock, specialty crops?
- How would it fit with existing crop insurance program?
- A similar approach pushed by American Soybean Assn, Nat. Corn Growers during debate for 2002 farm bill

Green payments for `green box'

- The 2002 farm bill saw a nearly 80 percent increase in funding for conservation programs
- Increased emphasis on programs for `working lands'
- Proposal to replace traditional commodity programs with green payments already released by American Farmland Trust earlier this year
- Will see strong push by environmental and conservation groups to move in this direction in 2007 farm bill

Mercier

Increased Conservation Spending – Working Lands Emphasis



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Renewable energy policy

- Much of federal incentive structure (tax credits, RFS) falls outside of Ag. Committee jurisdiction
- Expect to build on features of energy title in 2002 farm bill
  - Bio-based product federal preference program
  - Grants and loans to encourage renewable energy production, energy efficiency on farms
  - R&D funding for cellulosic ethanol and bio-refineries
  - CCC Bio-energy program

Mercier

Final Observations on the Upcoming 2007 Farm Bill

- Commodity/farm groups generally like the 2002 farm bill, particularly the commodity program title.

- The WTO Doha Round negotiations/cotton case and U.S. federal budget deliberations are potentially significant external forces for change.

- WTO commitments issues may be the more important external force in the near term, but ongoing pressure to limit the growth of U.S. entitlement program spending may be the dominant external force over the longer-term.

Final Observations on the Upcoming 2007 Farm Bill (Cont.)

- The Food Stamp program, which accounts for an increasingly large share of Agriculture Committee mandatory spending, is due to be reauthorized as part of the 2007 farm bill.
- The Bush Administration would like to be a significant player in the writing of the 2007 farm bill, but it is unclear how much influence it will have.
- The outlook for U.S. agricultural markets is uncertain heading into the farm bill deliberation due, in part, to their increasing linkages with energy markets.