The 2007 Farm Bill:  
Shift from Price and Income Support to  
Energy, Conservation and the  
Environment ?? 
Opportunities for Cooperatives 

9th Annual Farmer 
Cooperative Convention 
November 1-2, 2006 

We need to explore two questions:

1. Will the 2007 Farm Bill make significant changes in existing programs?

2. What challenges and opportunities could be created for farmer cooperatives?
Shifts in government programs, significant changes in the levels of funding and variations in delivery mechanisms will alter the business risk and incentive patterns of American farmers and their cooperatives. Business plans will need to be adapted accordingly.

1. Will the 2007 Farm Bill make significant changes in existing programs?

“Every farm bill is a product of its environment!”
2007 Farm Bill Drivers

Federal Budget

Media & Public Opinion

Doha Status / Details

2007 Farm Bill

Interest Group Roles

Political Climate 2006-08

Ag Economic Status

2007 Farm Bill Drivers

Federal Budget

2007 Farm Bill
Budget Prospects Linked to Tax Extensions

Billion dollars

Current CBO projections* with phase-out funding for Iraq.
Current CBO projections* with extension of expiring tax provisions and phase out of Iraq commitment.

* August, 2006. Assumes discretionary spending increases at rate of inflation.

Different Perspectives on Federal Budget

Deficit in billion dollars

Reagan  G. Bush  Clinton  G. W. Bush  ???

Percent of GDP

Deficit as percent of GDP

Source: Congressional Budget Office and Treasury Department
Smaller Share of Budget to Find Offsets!

**FY 2006**
- Social Security: 20.8%
- Discretionary and other mandatory: 30.2%
- Medicare / Medicaid: 22.0%
- Defense: 18.9%
- Net Interest: 8.2%

**FY 2010**
- Social Security: 21.8%
- Discretionary and other mandatory: 25.6%
- Medicare / Medicaid: 26.6%
- Defense: 9.2%
- Net Interest: 9.2%

Based on August 2006 CBO projections

Direct Government Payments

<table>
<thead>
<tr>
<th>Billion dollars</th>
<th>Average</th>
<th>1985 Farm Bill</th>
<th>1990 Farm Bill</th>
<th>1996 Farm Bill</th>
<th>2002 Farm Bill</th>
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<tbody>
<tr>
<td>Total</td>
<td>12.7</td>
<td>8.9</td>
<td>16.6</td>
<td>18.0</td>
<td></td>
</tr>
<tr>
<td>Emergency</td>
<td>2.1</td>
<td>1.2</td>
<td>4.9</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Conservation</td>
<td>1.4</td>
<td>1.9</td>
<td>1.7</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Commodity</td>
<td>9.2</td>
<td>5.8</td>
<td>9.9</td>
<td>13.4</td>
<td></td>
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</table>

Calendar year:
- 75 77 79 81 83 85 87 89 91 93 95 97 99 01 03 05 07
2007 Farm Bill Drivers

The Doha Round and the 2007 Farm Bill

Doha Round negotiations:
- Breakdown in negotiations ..........
- Momentum for change in farm bill slowed but the likelihood of more WTO challenges will work against status quo!
- Look for resumption of negotiations with push after November elections.
- Basic issues remain (1) how much market access can be gained for reducing domestic supports and implementing a new peace clause and (2) which commodities will be the winners and losers?
The Doha Round and the 2007 Farm Bill

An extension of trade promotion authority for this President would have to be Doha Round specific and based on clear progress toward completion by the end of 2007.

A one year extension of the 2002 farm bill is likely only with extension of trade promotion authority for Doha!

2007 Farm Bill Drivers

- Federal Budget
- Doha Status / Details
- 2007 Farm Bill
- Political Climate
### Political Climate and the 2007 Farm Bill

**Who will write the next Farm Bill?**

- **Determined by 2006 election results**
- **Influenced by 2008 Presidential and congressional campaigns**

Note: The last three farm bills have been written in election years!

<table>
<thead>
<tr>
<th>Year</th>
<th>Majority</th>
<th>Minority</th>
</tr>
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<tbody>
<tr>
<td>1990</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
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</table>

Since 2002 Farm Bill -

- 60% Turn-Over on the House Agriculture Committee
- 30% Turn-Over on the Senate Agriculture Committee

<table>
<thead>
<tr>
<th>Year</th>
<th>Majority</th>
<th>Minority</th>
</tr>
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<tbody>
<tr>
<td>2002</td>
<td>Larry Combest (R-TX)</td>
<td>Charlie Stenholm (D-TX)</td>
</tr>
<tr>
<td>2006</td>
<td>Bob Goodlatte (R-VA)</td>
<td>Collin Peterson (D-MN)</td>
</tr>
<tr>
<td>2007</td>
<td>??????????</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Majority</th>
<th>Minority</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Tom Harkin (D-IA)</td>
<td>Richard Lugar (R-IN)</td>
</tr>
<tr>
<td>2006</td>
<td>Saxby Chambliss (R-GA)</td>
<td>Tom Harkin (D-IA)</td>
</tr>
<tr>
<td>2007</td>
<td>Likely no change</td>
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Congressional Environment for 2007 Farm Bill

- Margin of control in both the Senate and House will become smaller irrespective of the party in the majority.
- Republicans expected to hold Senate but Democrats have a 60% chance of controlling the House.
- Moving legislation in 2007-08 will be difficult and heavily influenced by positioning for 2008 elections.
- Farm bill will be about budget first, politics second and policy third.

2007 Farm Bill Drivers

Diagram showing relationships between Federal Budget, Doha Status/Details, Political Climate, and Ag Economic Status connected to the 2007 Farm Bill.
Farm Income Under Pressure in 2006

Net Farm Cash Income

Net Cash Income less govt payments

Direct government payments

* emergency payments are striped area of government payments)

Ethanol Mandate Changes Market Structure

Billion bushels of corn

Production Total Use Free stk Gov't stk

Stronger prices and more volatility!
Horticulture Growing; Want Seat at Table

Billion dollars of cash receipts

80 82 84 86 88 90 92 94 96 98 00 02 04 06

(elimination of planting restriction will bring new group to the table)

Program crops
Meat animals
Horticulture products
Dairy

2007 Farm Bill Drivers

2007 Farm Bill

Federal Budget
Doha Status / Details
Political Climate
Ag Economic Status
Interest Group Roles
Media & Public Opinion
Interest Groups and the 2007 Farm Bill

✓ Farm and Commodity Groups
✓ Environmental/ Conservation Groups
✓ Food, Nutrition and Humanitarian Interests
✓ Land Grant Colleges and Research Community
✓ Farm Credit and Banking
✓ Rural Electrics✓ Processors
✓ Crop Insurance Companies✓ Grocery Manufacturers
✓ Commodity Traders/ Exchanges✓ Merchants and Shippers
✓ Ag Inputs and Suppliers✓ Retailers
✓ Exporters✓ Consumer Groups

Media & Public Opinion and the 2007 Farm Bill

Major news media continue steady drumbeat against current farm policy and spending in concert with interest groups:

- Hoping to influence policymakers and public opinion
- Setting itself as "watchdog" for the "public interest"
- Targeting its metropolitan and suburban audience
- Reinforcing its own priorities for public policy and federal spending
2. What challenges and opportunities could be created for farmer cooperatives?

Shifts in government programs, significant changes in the levels of funding and variations in delivery mechanisms will alter the business risk and incentive patterns of American farmers and their cooperatives. Business plans will need to be adapted accordingly.

These shifts will create opportunities and challenges for farmer cooperatives to work with their members to provide the tools to address the altered risk pattern!

- Market risk
- Financial risk
- Production risk
- Environmental risk
- Food safety risk
2007 Farm Bill

Risk Management
Conservation & Environment
Energy
Rural Development
Food & Nutrition
Other Programs

CBO Baseline for Food and Agriculture Programs
FY 06-16
Billion dollars

Crop Insurance $43 7%
Conservation $49 8%
Commodities $116 19%
Food & Nutrition $387 63%
Other $18 3%
Risk Management

- Maintain commodity programs; align with WTO or risk litigation.
- Revenue stabilization replaces marketing loan and counter-cyclical programs.
- Transition current programs to savings accounts, expanded crop insurance, conservation and rural development.

Maintain commodity programs; align with WTO or risk litigation.

- The impacts of this alternative will be largely driven by the status of the Doha round and the prevailing budget environment.
- With limited changes in program structure the new opportunities for cooperatives will revolve around market adjustments to energy initiatives and funding in other areas of the farm bill.
- Adjustments in fruit and vegetable planting restrictions and offsetting compensation should create additional marketing and research options that cooperatives would need to evaluate.
Revenue stabilization replaces marketing loan and counter-cyclical programs

✓ Farmer cooperatives would have expanded opportunities in the areas of marketing and risk management. Significant changes in existing marketing programs for cotton, rice and some grains and oilseeds would be required.

✓ The structure of the revenue stabilization program and the nature of the transition process from existing programs would shape opportunities. A wide range of proposals exist with little specificity.

Transition current programs to savings accounts, expanded crop insurance, conservation and rural development.

✓ Farmer cooperatives would have expanded opportunities in the areas of marketing and risk management. Significant changes in existing marketing programs for cotton, rice and some grains and oilseeds would be required.

✓ Farmer cooperatives would need to explore opportunities associated with an expanded crop insurance program to integrate into new marketing programs.

✓ The shifting of funds would expand opportunities that are discussed under other titles.
Conservation & Environment

- Improve existing programs with targeting, consolidation of programs and delivery mechanisms, etc.
- Utilize green payments as alternative income support with environmental benefits.
- Encourage private sector markets for environmental services.
- Expand conservation compliance

With existing programs and targeting cooperatives will find opportunities as:

- Technical service providers.
- Participants in Energy Biomass Research and Development Initiatives.
- Facilitators in documenting conservation practices to qualify for Conservation Security Program.
- An aggregator of producer applicants for environmental funding. Cooperatives could bring producers together for a joint application to achieve greater environmental benefit. This would allow small producers to qualify on a competitive basis since aggregate benefit would be significant.
With transition of commodity programs to green payment programs cooperatives could have additional role as:

- A delivery mechanism for documenting conservation practices to qualify for green payments. Existing infrastructure in conservation areas simply lack resources to provide a delivery mechanism without private sector assistance.
- Significant changes in market risk would emerge with elimination of commodity programs and that would provide increased cooperative opportunities in commodity marketing.

With development of private sector market for trading environmental credits, cooperatives could have additional role by:

- Assisting producers in documenting conservation practices to establish tradable offsets.
- Participating in development of markets to buy and sell environmental credits.
- An aggregator of carbon credits on behalf of their producers to be marketed or exchanged.
With expansion of conservation compliance requirements cooperatives could have additional role by:

- Assisting producers in documenting conservation practices and compliances.
- Participating in the development of “standards of care” to establish eligibility for USDA program benefits.

Energy

- Expand Federal direct market intervention to support renewable energy.
  * expand RFS, extend energy tax credits, accelerated depreciation, etc.

- Expand Federal indirect support for renewable energy.
  * expand cellulosic ethanol research, bridge basic and applied research gap, develop equity investment options, etc.
Expand Federal direct market intervention and Federal indirect support for renewable energy.

✓ Most of the significant initiatives for bio-energy (tax and investment) are outside the jurisdiction of the Agriculture committees and are most likely to be included in energy or tax legislation.

✓ Outlays for biobased products/bioenergy in USDA have totaled around $300 million per year and are spread over 8 agencies.

✓ Significant incentives for cooperatives to participate in the biofuels industry from inputs to distribution may be part of the next generation of energy legislation.

Rural Development
✓ Maintain current programs but increase program targeting
✓ Increase focus on new business formation as the core activity to increase rural growth with market-based solutions.
✓ Move programs toward more regionalized funding and decision making.
Targeting of programs would require assessment of the greatest needs in rural areas and an evaluation of the effectiveness of existing programs.

Current USDA Rural Development Program Categories

- Infrastructure Development (Electricity, water, etc.) 52%
- Special Needs (Housing, facilities, etc.) 40%
- Economic Development 9%
- Financial & Technical Assistance 9%
- Grants 9% (includes value-added grants)
- Loan Guarantees 55% (includes Business & Industry loans)
- Direct Loans 26%
With an increase focus on new business formation as the core activity to increase rural growth with market-based solutions:

✓ Farmer cooperatives could become a recipient of or an active participant in the efforts to facilitate the aggregation of financing for new rural businesses.
(The focus of this initiative is to develop strategies that facilitate investment by rural residents in rural businesses to create wealth in rural America.)

With an increase focus on moving programs toward more regionalized funding and decision making farmer cooperatives are logical partners in:

✓ Developing strategies to encourage rural areas to work together to leverage the local regions assets in order to enhance regional growth strategies.
Food and Nutrition

✓ Modernize the food stamp program
✓ Reexamine the overall effectiveness of the programs and make necessary adjustments.

Modernize the food stamp program. Reexamine the overall effectiveness of the programs and make necessary adjustments.

✓ Commodity purchases for school lunch program will continue to be a significant opportunity for cooperatives. Expanded funding for the acquisition of fruits and vegetables would broaden the demand for those commodities and create new opportunities.
Expand Federal crop insurance program. Initiatives in food safety, animal ID, country of origin labeling, specialty crops, animal and plant protection, organic agriculture, etc.

Wide range of issues that will provide new opportunities for some farmer cooperatives and pose challenges to the existing business plans of other farmer cooperatives.