



Farm Policy Situation & Outlook

Other issues impacting ag policy

Policy transition if lower crop prices, surpluses arise

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Could Washington Be More Dysfunctional?

- **Obama: Second term woes**
 - ◆ **Healthcare reform timeline slips** – Election-year angle
 - ◆ **Intelligence snafu:** A sense that U.S. is losing clout
 - ◆ **Executive orders:** Climate change, other issues
 - ◆ **Regulations:** A growing backlog at OMB
 - ◆ **Farm Bill:** Discord between farm groups, lawmakers, Obama
 - ◆ **Foreign policy issues:** Egypt – Syria – Iran – North Korea

Could Washington Be More Dysfunctional?

- **Budget: Compromises needed**
 - ◆ Debt limit hike talks
 - ◆ FY 2014 spending...the 'CR'
 - ◆ Sequestration issues
 - ◆ Tax extenders, tax reform
 - ◆ GOP overreach? Obama budget plan?

Could Washington Be More Dysfunctional?

- **Immigration reform:** Some bipartisanship, but...
 - ◆ Obama legacy or 2014 election issue?
 - ◆ Senate passes | House bill *will* be different
 - ◆ Ag/seasonal workers accord

Immigration Reform




- **Four Issues:**
 - Border security
 - E-Verify
 - Seasonal workers (ag) / skilled workers
 - Path to earned legalization
- **Senate:** Comprehensive bill passed in June – 68 to 32
- **House:** Piecemeal reform
- **Outcome:** Comprehensive bill unlikely before 2014 election

Energy Issues

- **Mega changes** in production, usage
- **Fertilizer prices** at or near lows
- **Wild card** countries
- **Biofuels** at plateau

Renewable Fuel Standard

Key Challenges:

- Ethanol Mandate 
- CAFE Standards 
- Passenger Vehicle Miles 
- Blend Wall – frozen
 - E-10

Corn Ethanol Mandate

2013: 13.8 billion gallons

2014: 14.4 billion gallons

2015: 15 billion gallons

Biodiesel Mandate

2012: 1 billion gallons

2013: 1.28 billion gallons

2014: 1.7 billion gallons

Biofuels...Policy Issues

- **RFS for 2013: EPA forced to make adjustments**
 - ◆ EPA alters volume requirement for cellulosic
 - ◆ Extends RFS compliance four months, thru June 2014
 - ◆ Biodiesel unchanged.... Another tax incentive extension?
- **RFS for 2014: More changes ahead to address 'blend wall'**
 - ◆ Initial announcement this month
 - ◆ Final rule around June 2014
 - ◆ Ethanol mandate likely changed from 14.4 bil. gallons
 - ◆ Compliance deadline
 - ◆ Stabenow wants CFTC to probe RINs

Biofuels: Legislation?

- **House:**

- ◆ Hearings on RFS, blend wall, etc. held
- ◆ White papers issued
- ◆ Legislative language after summer recess
- ◆ Cantor push to add language to CR, other bill

- **Senate:**

- ◆ A more go-slow approach
- ◆ No legislation likely this year

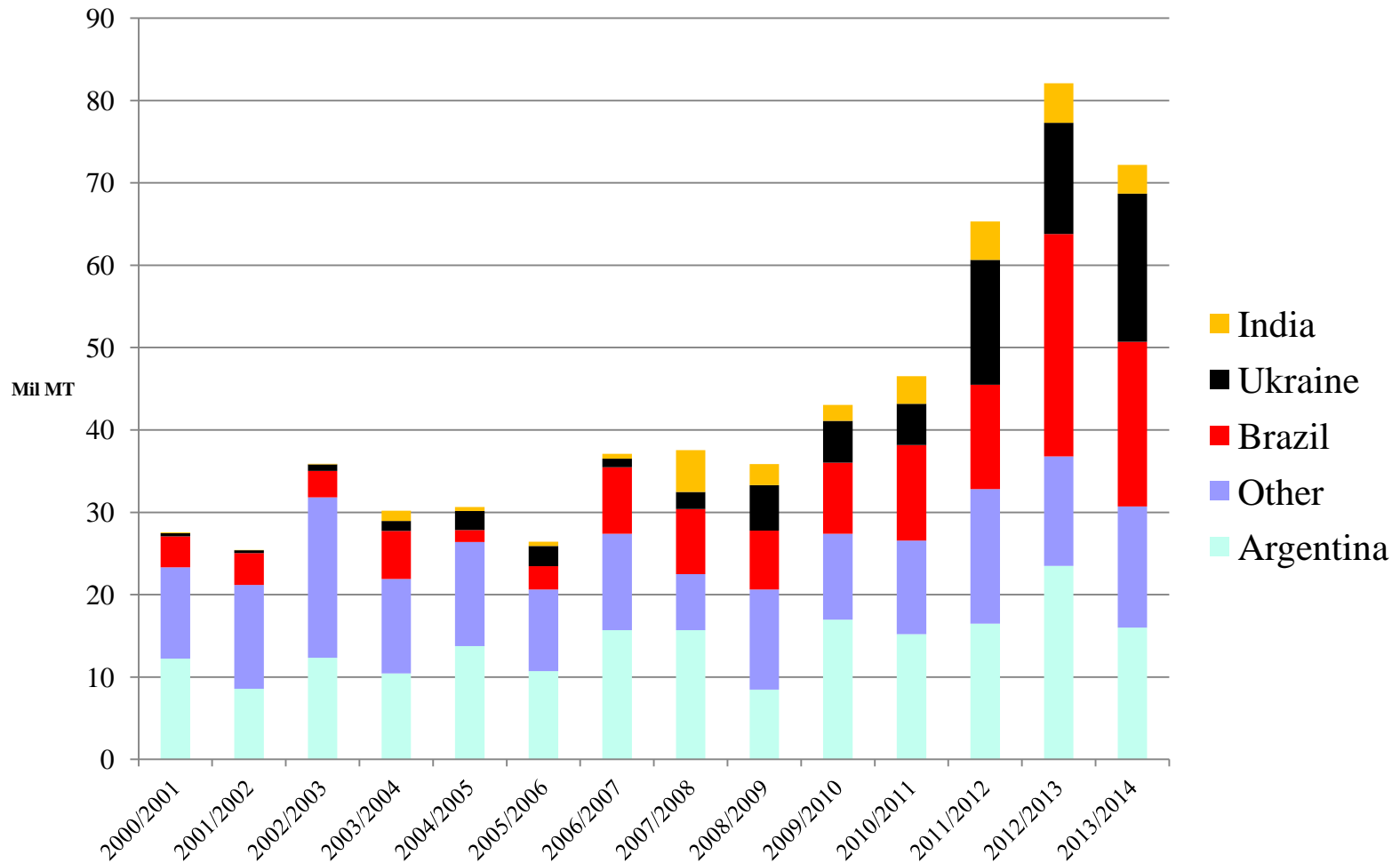
Trade Policy

- **Trans-Pacific Partnership (TPP)** – Obama wants negotiations to conclude in 2013
 - **12 countries:** focus on Asia/Latin America
 - **40% of global GDP**
 - **33% of world trade**
- **Trans-Atlantic Trade and Investment Partnership (TTIP)** – EU/US
 - **50% of global GDP**
 - **33% of world trade**
 - Negotiations to continue for years
- **Trade Promotion Authority (TPA)**
 - Time limited/only on TPP

Trade Policy Issues

- **FTA proposals** – EU, TPP
- **Fast-track** trade negotiating authority: yes, but... TAA issue
- **Brazil cotton case:** Vilsack comments
- **COOL:** WTO ruling awaited – Canada and Mexico response
- **U.S. HFCS:** Mexico and Canada
- **Changing farm exports:** Growth in developing countries
- **Key question:** Does U.S. have right strategy?

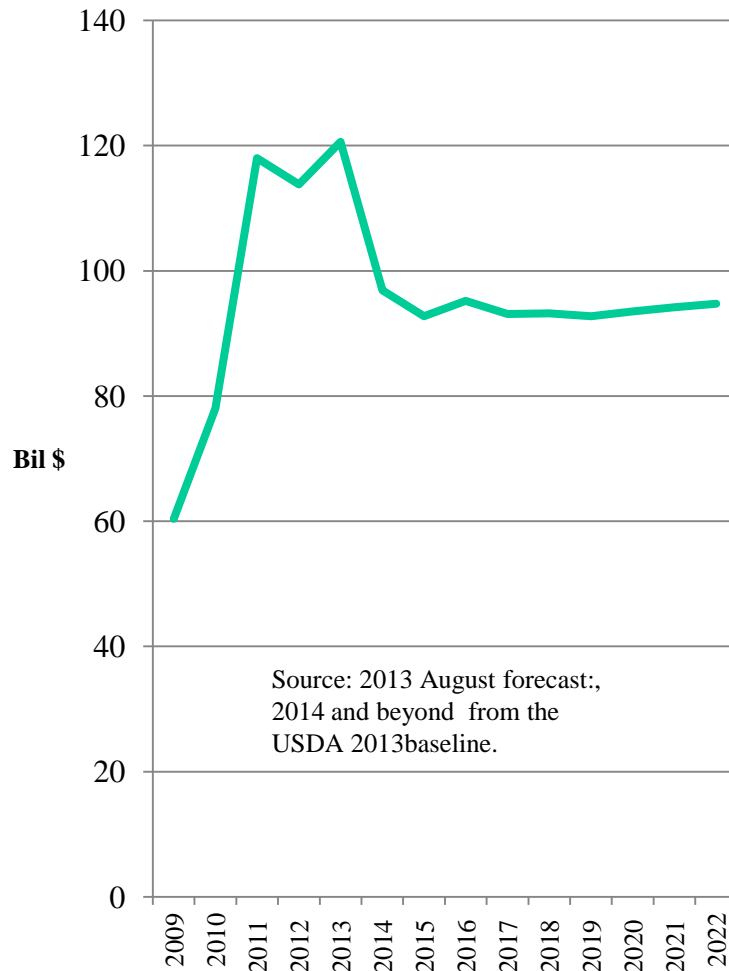
Non-Traditional Competitors Have Cranked Up Corn Exports



Trade Policy Changes Needed

- **USDA Undersecretary for Trade:** Will likely be in farm bill
 - ◆ **1978:** Last time ag trade reorganized, \$29 bil. exports
 - ✎ **2013:** Exports now at \$135-\$140 billion
 - ◆ **1978:** 60% exports were bulk
 - ✎ **2013:** Big increase in value-added, meat exports
 - ◆ **From tariff to non-tariff** barrier issues
 - ◆ **FSIS, AMS, FAS trade roles** to new post

Net Farm Income to Retreat from Current Peak



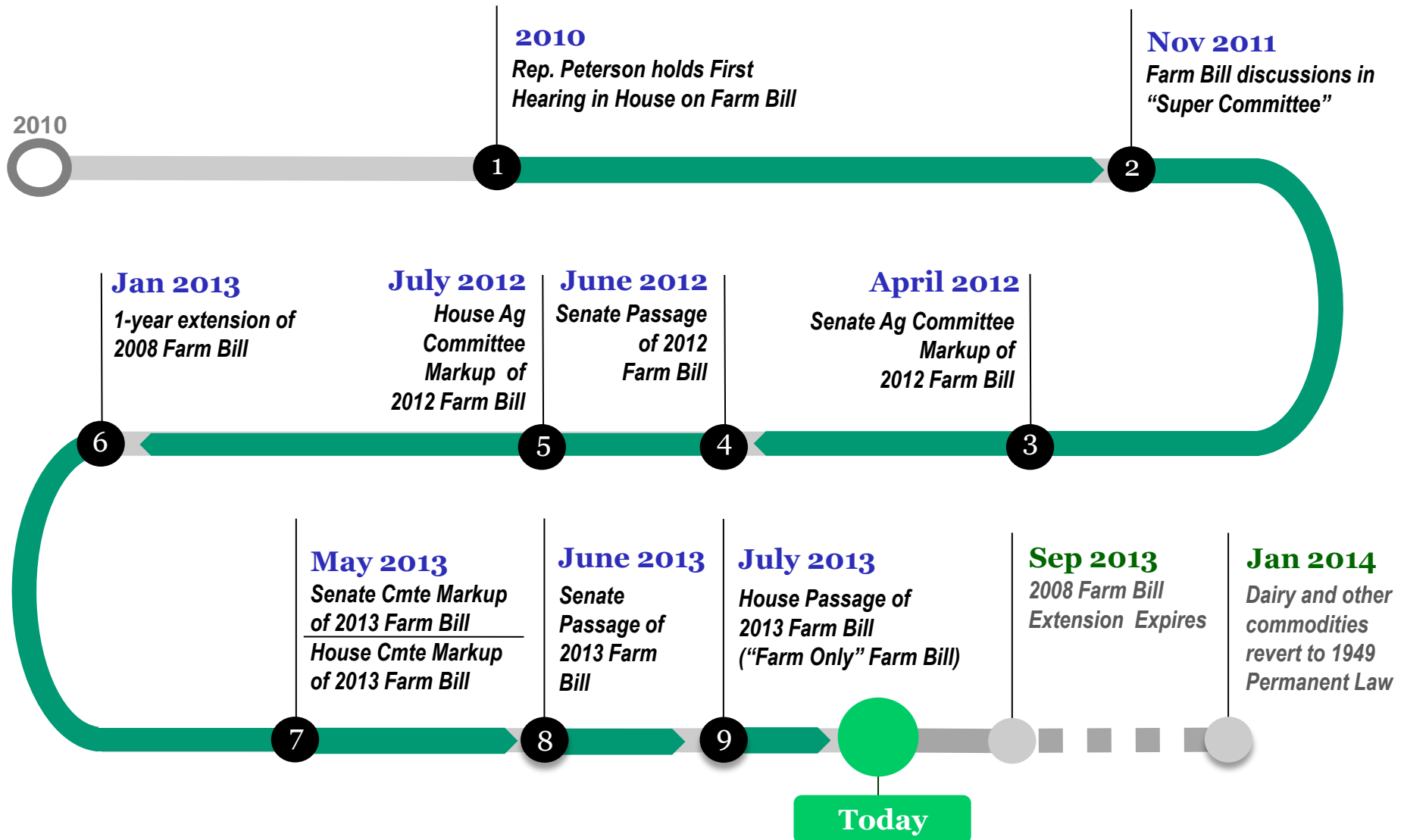
- 2013 net farm income forecast at \$120.6 billion, in real terms the second highest since 1973, **reflecting high prices, as well as large crop insurance indemnities.**
- The **projected decline** is based on a period of **lower crop receipts**, as livestock and products income will continue steady gains.
- **Behind the crop price declines:** Slower demand growth, export competition, and some rebuilding of stocks

Will We Ever Get a Farm Bill?

- ➔ *Farm Bill Process*
- ➔ *2013 Farm Bill Details*
- ➔ *Path Forward*



Farm Bill Process...Three Years!





2013 Farm Bill Details



Farm Policy

Guiding principles...

- ➔ *Farm policy must work for all crops and all regions of the country.*
- ➔ *Farm policy must be able to protect against multi-year deep price declines like we saw in the late 1990s.*
- ➔ *Do no harm to crop insurance and make improvements where possible.*

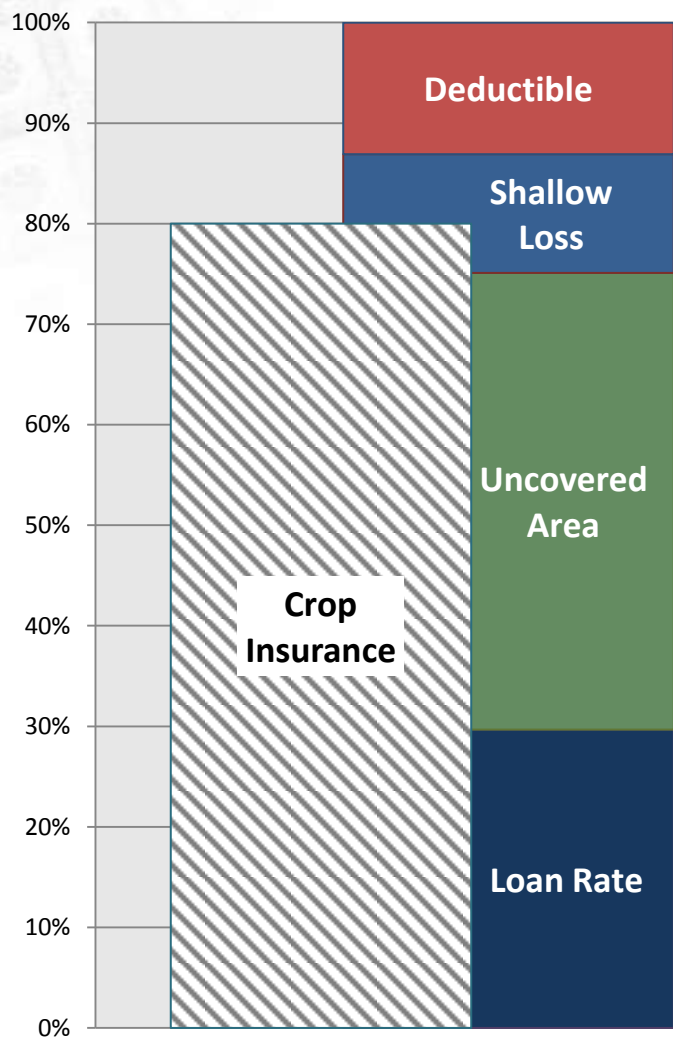
Commodity Policy

House Farm Risk Management Election

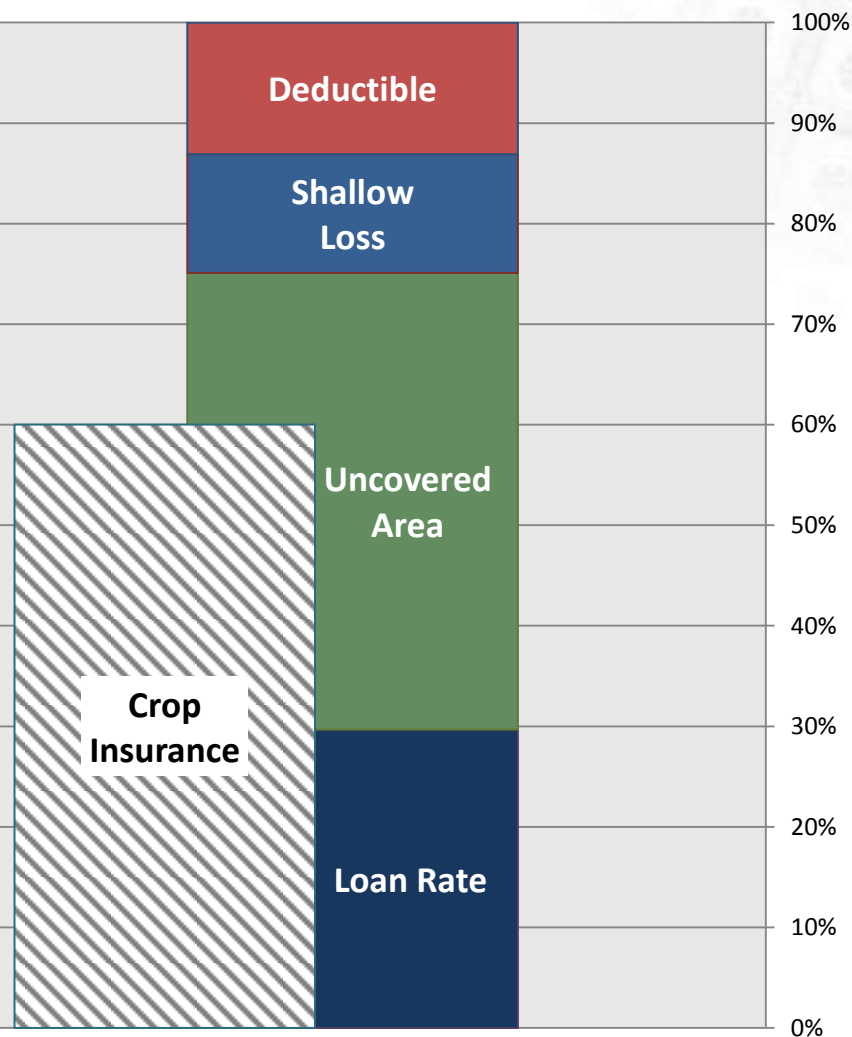
- *Farm-by-Farm and Crop-by-Crop Producer Choice Between 2 Options:*
 1. *Price Loss Coverage (PLC)*
 2. *Revenue Loss Coverage (RLC)*
- *Recognizes that agriculture across the United States is not monolithic. It allows the producer more flexibility for choosing a program that works best in his/her area under his/her production practice.*
- *Producers remain eligible for marketing loans, the terms of which are unchanged except in the case of cotton.*
- *Full planting flexibility is provided. Payments are made on planted acres not to exceed base – approach taken under ACRE in 2008 FB and ensures new acres are not added to the program in a time of deficit reduction.*

Shallow Loss Coverage

SL Coverage - Iowa Corn

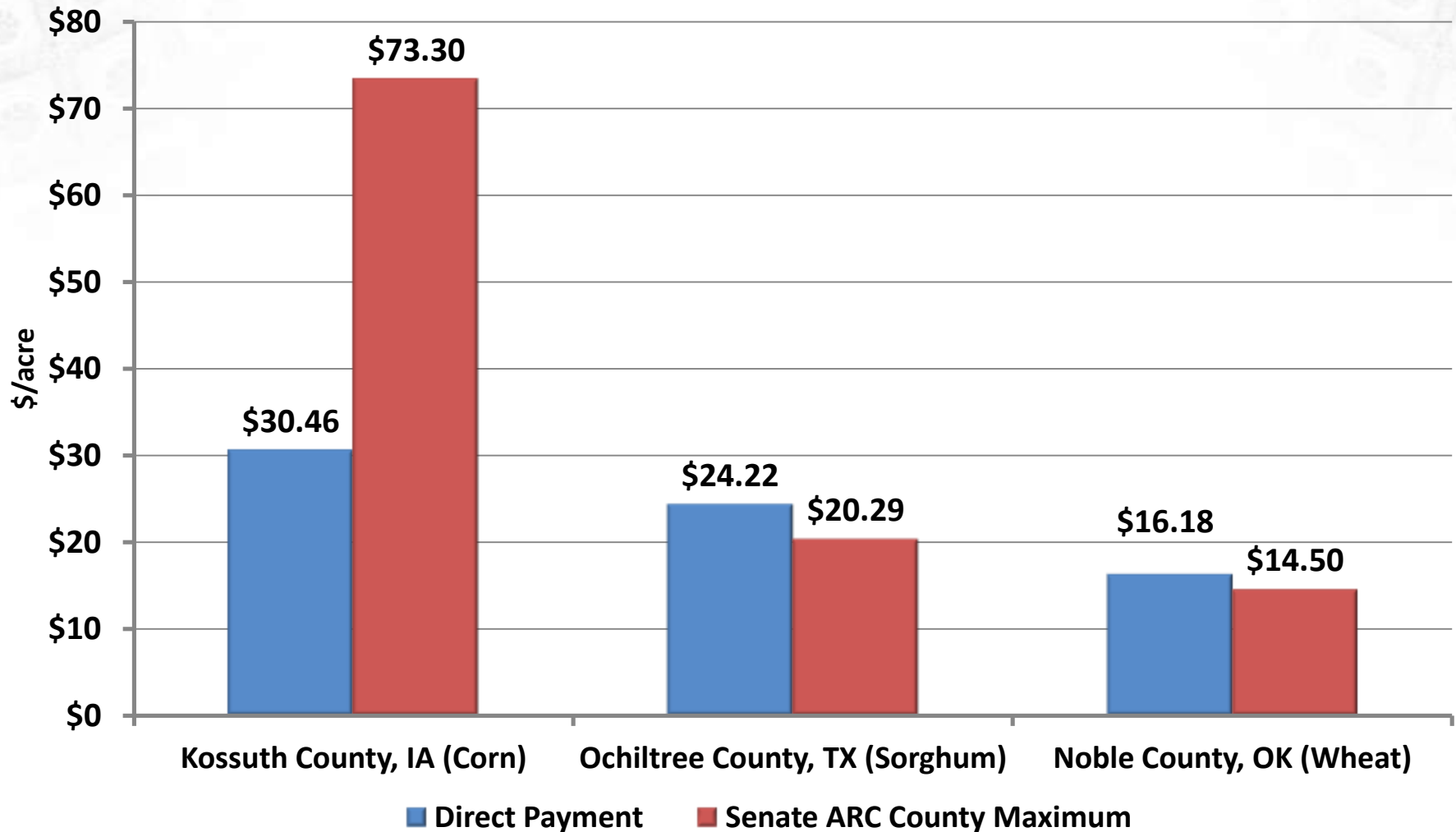


SL Coverage - Texas Wheat



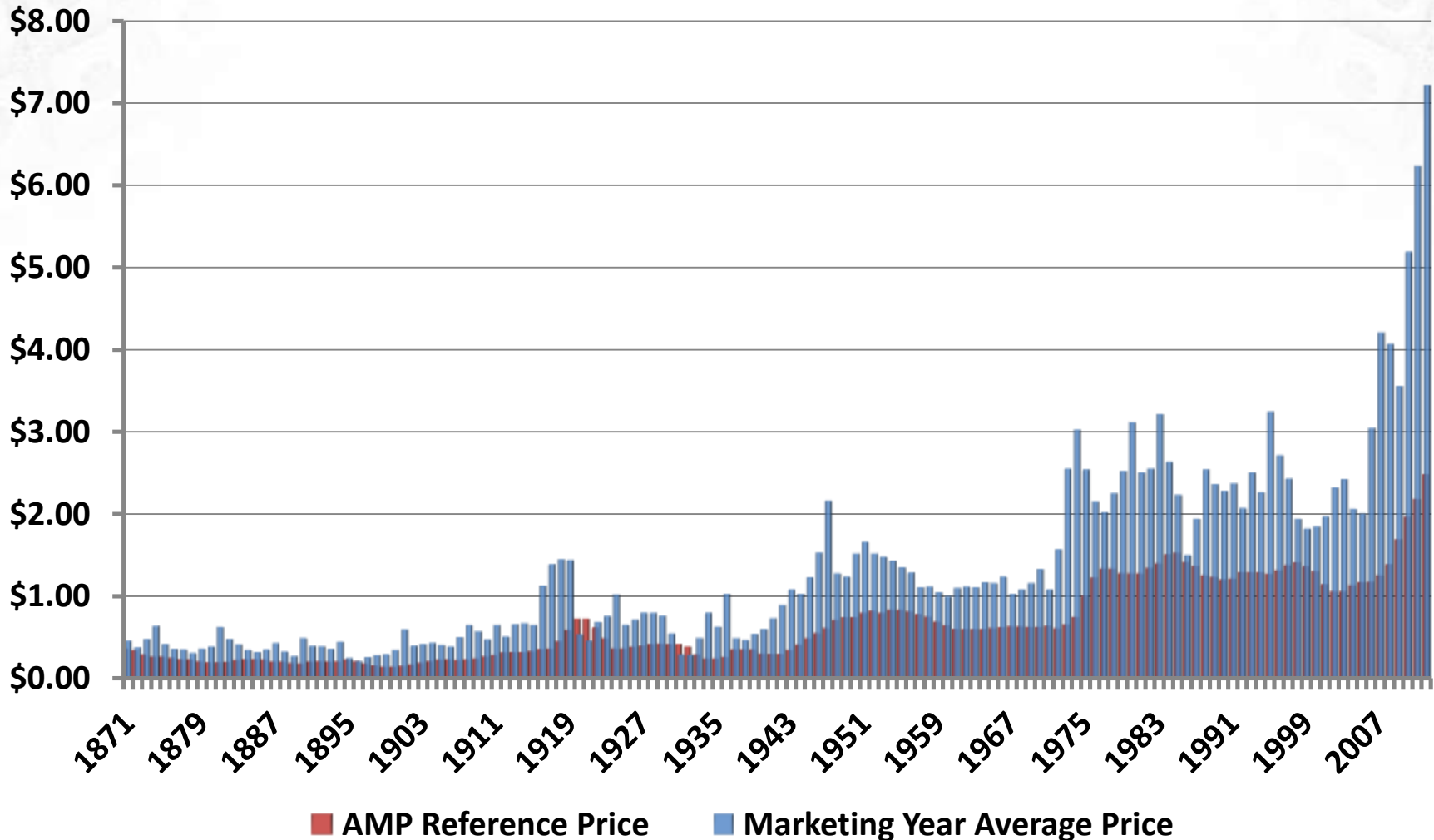
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Will “Shallow Loss” Programs Work?



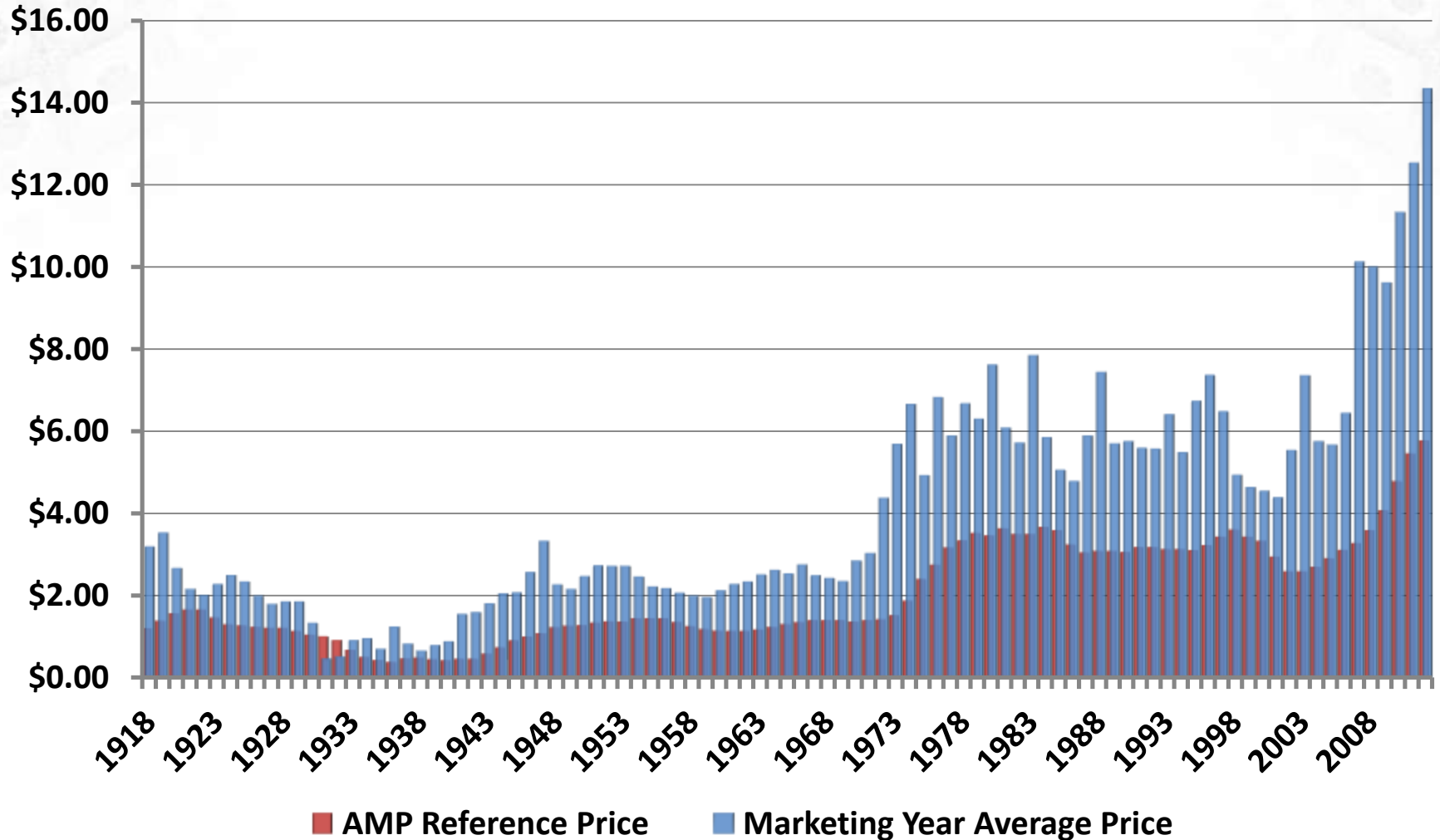
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Senate Adverse Market Payment: Corn



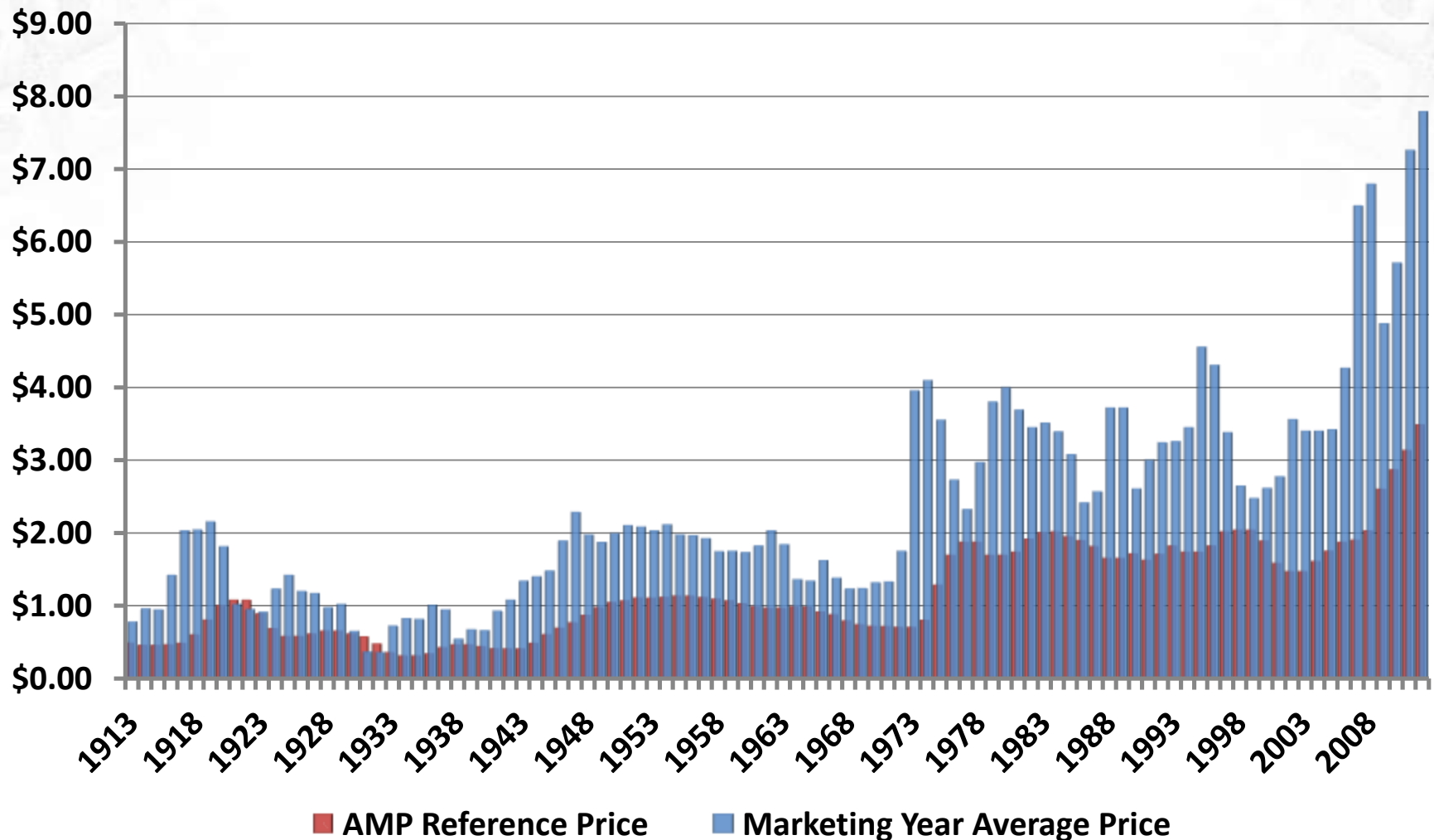
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Senate AMP Analysis: Soybeans



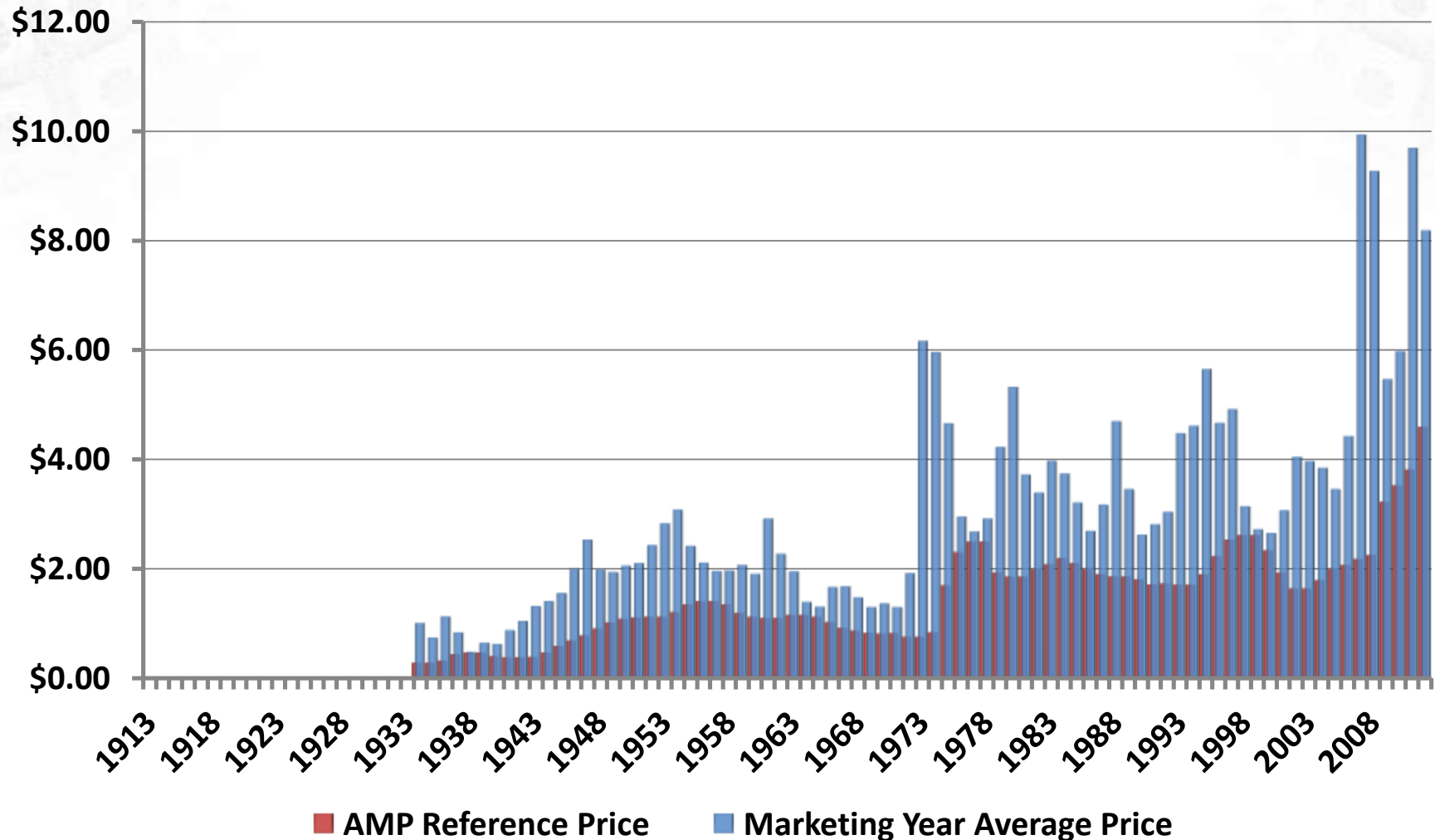
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Senate AMP Analysis: Wheat



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Senate AMP Analysis: Durum Wheat



Commodity Policy

Payment Limits and Means Testing...

	Current Law	S.954	H.R.1947 <i>(Fortenberry Amdt.)</i>
Payment Limits	DP----- \$40,000 CCP ----- \$65,000 MLG/LDP -----No limit Peanuts – Separate Limit	AMP/ARC----- \$50,000 MLG/LDP----- \$75,000 Peanuts – Separate Limit	PLC/RLC----- \$50,000 MLG/LDP----- \$75,000 Peanuts – Not Separate
Actively engaged in farming	Active person labor and/or active personal management.	REMOVES Active personal management contribution.	REMOVES Active personal management contribution.
AGI Limitation	Non farm income limitation, \$500,000. Farm income limitation, \$750,000	Replaces the two income limitation test (farm and nonfarm income) with a single <u>\$750,000</u> AGI limitation.	Replaces the two income limitation test (farm and nonfarm income) with a single <u>\$950,000</u> AGI limitation.

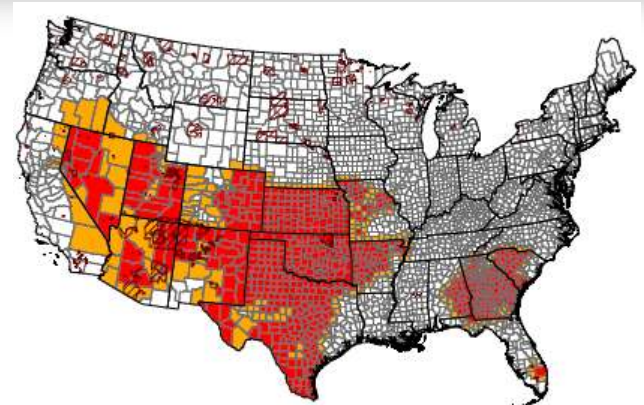
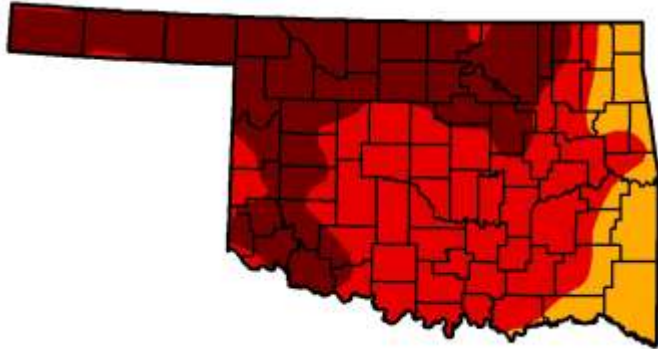
Commodity Policy

Other issues:

- ➔ *Supplemental Revenue Assistance Payments (SURE) program was not continued (neither House nor Senate).*
- ➔ *Permanent Law: Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 are replaced as permanent law by Title 1 in HR 2642.*

Crop Insurance

DO NO HARM TO CROP INSURANCE



Crop Insurance

Major similarities between House and Senate...

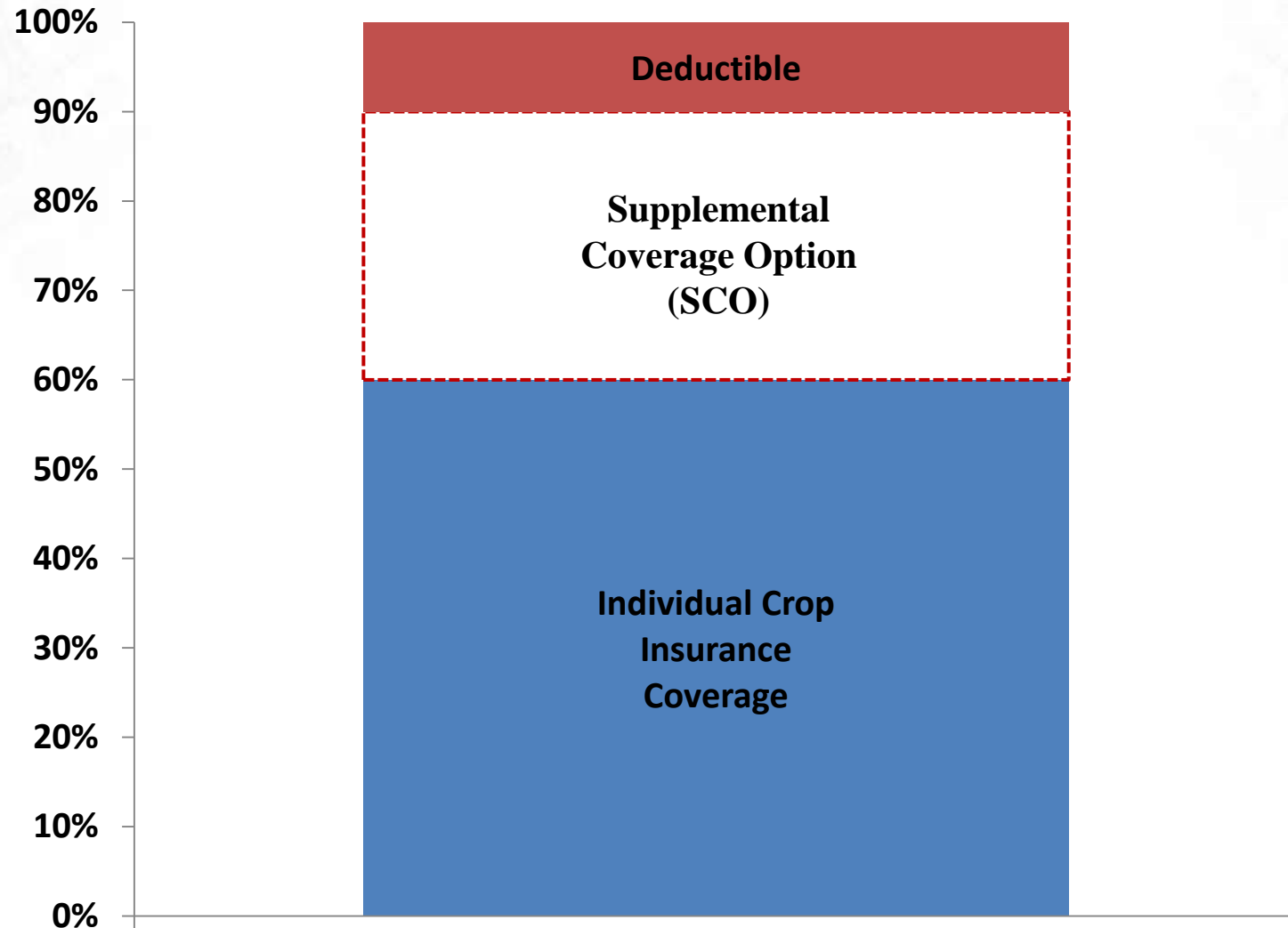
- ➔ *Enterprise Units* – *Makes the premium subsidy for enterprise units permanent.*
- ➔ *Enterprise Units by Practice* – *May separate enterprise units by irrigated and non-irrigated practice.*
- ➔ *Cotton* – *Cotton producers are ineligible for Title 1 programs but may purchase an enhanced area-wide crop insurance product (STAX).*
- ➔ *Authority to Correct Errors* – *Authorizes AIPs and agents to correct unintentional errors to ensure accuracy of all insurance information.*
- ➔ *SRA Sideboards* – *Requires that renegotiation of the Standard Reinsurance Agreement is budget neutral.*
- ➔ *Beginning Farmer & Rancher Provisions* – *Provides a 10 percentage point premium subsidy increase and an 80 percent APH yield plug.*

Crop Insurance

...and a few key differences.

- ➔ Supplemental Coverage Option (SCO) – *An area-wide crop insurance product that can be purchased in addition to individual buy-up coverage.*
- ➔ Coverage by practice – *May elect a different coverage level for each production practice (e.g. irrigated and non-irrigated land) for all unit structures (House only).*
- ➔ Yield Plug Increases – *In the House Farm Bill, for all crop years within a producer's 10-year APH the yield plug is increased to 70% of the applicable transition yield. In the Senate Farm Bill, the yield plug is increased to 65% of the applicable transition yield beginning with the 2014 crop year.*
- ➔ Means Testing and Conservation Compliance – *included in Senate only.*

Supplemental Coverage Option



Livestock Policy

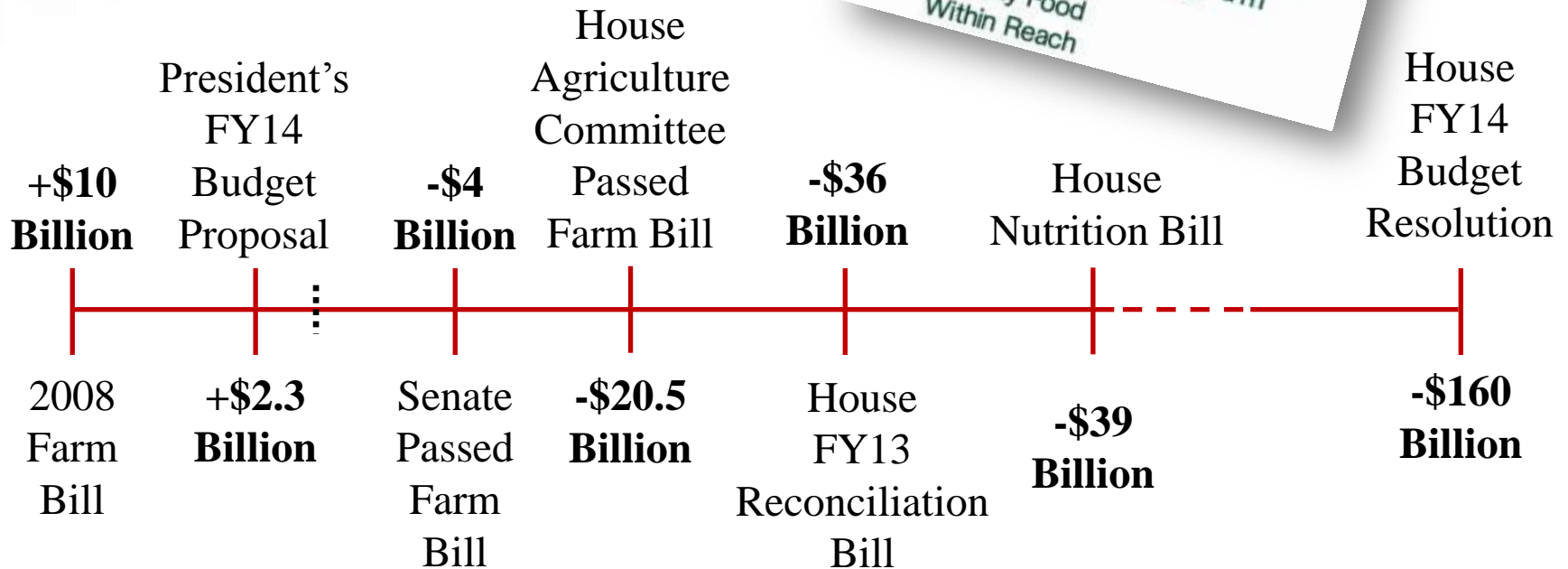
Livestock Disaster Assistance...

- ➔ *Both the House and Senate Farm Bills reauthorize and fully fund livestock disaster assistance provided in the 2008 Farm Bill, providing coverage retroactively to 2012.*
- ➔ *Livestock Indemnity Program: The House provides indemnity payments at 75% of the market value of livestock. The Senate provides indemnity payments at 65% of the market value of livestock.*
- ➔ *Livestock Forage Program: The House maintains current law while increasing the payment rate. The Senate combines ELAP forage assistance and NAP. The Senate also lowers the payment rate to 50% of monthly feed costs and limits the grazing period to 240 days per year.*

Path Forward

Nutrition

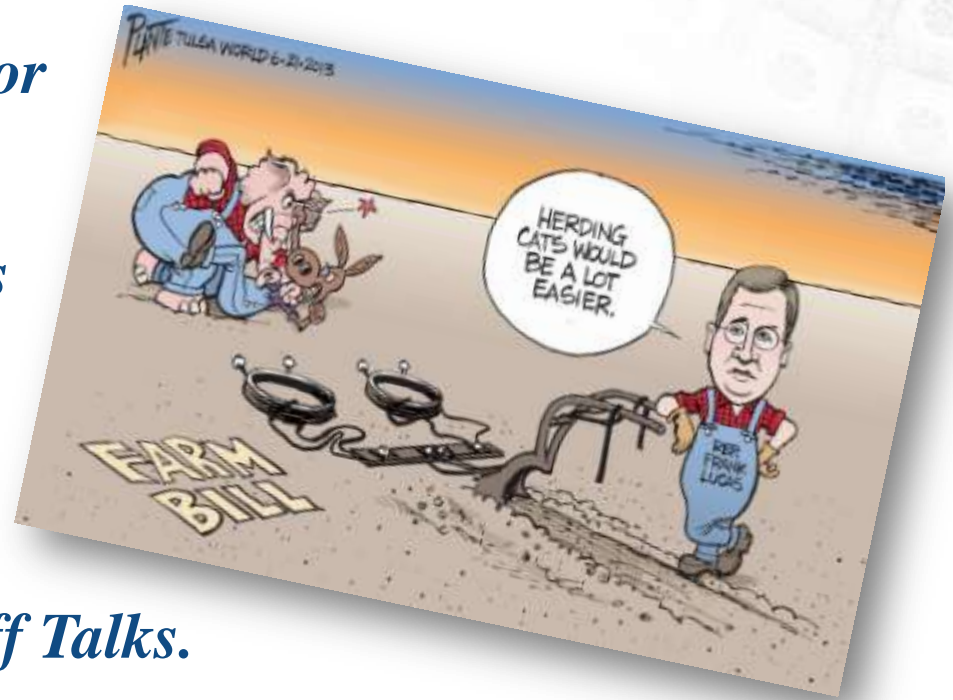
Bridging the great divide...



Farm Bill Path Forward

Factors Impacting Farm Bill Completion...

- ➔ *Conference: can begin with or without a nutrition title.*
- ➔ *House will appoint conferees in October, but...*
- ➔ *House nutrition bill...*
- ➔ *Deficit Reduction/Fiscal Cliff Talks.*
- ➔ *Most focused on finishing a Farm Bill this year.*



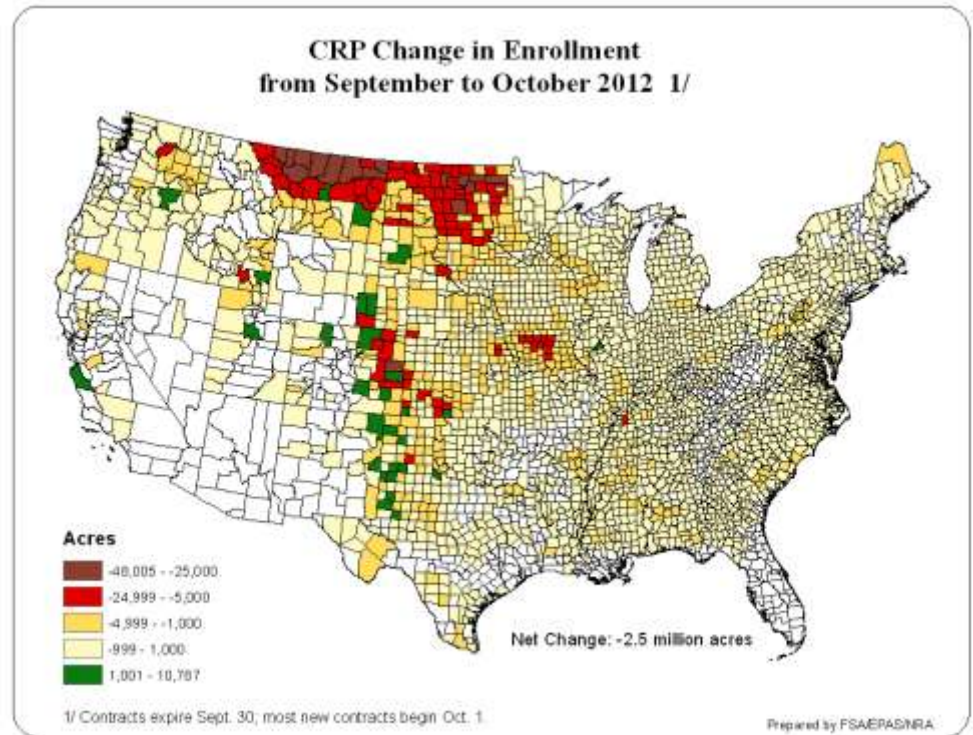
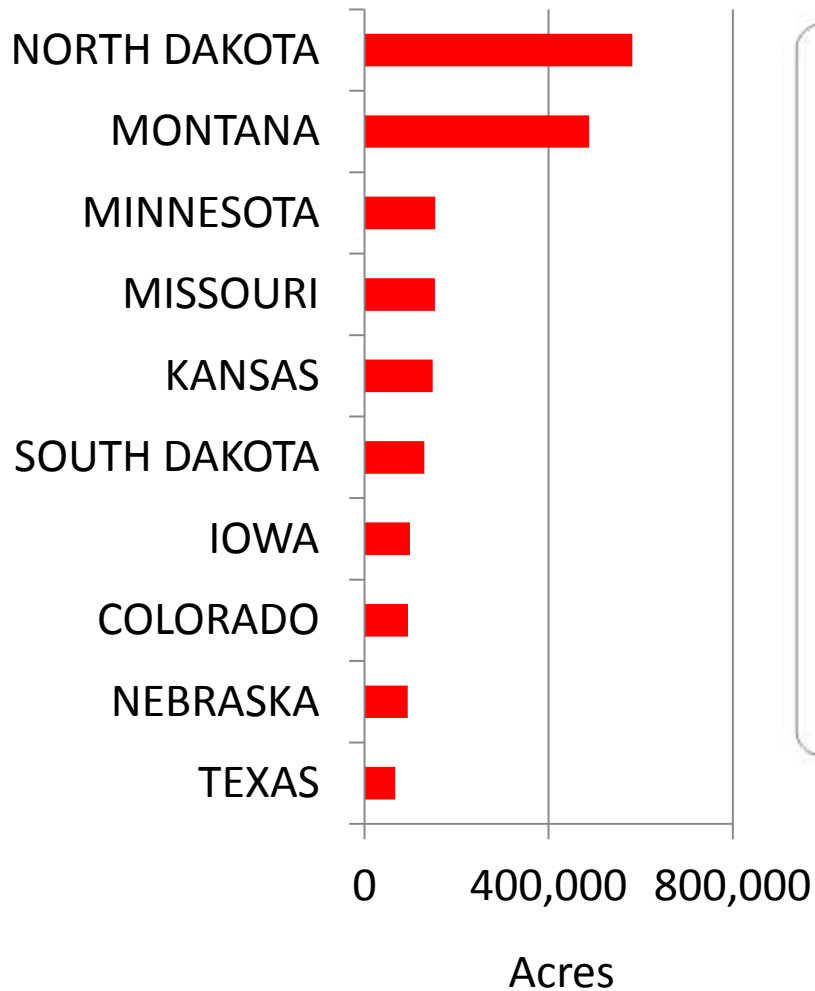
Will We Ever Get a New Farm Bill?

- **Process:** Senate – House
- **Conference:** When?
- **Major issues:** Food stamps, dairy, target prices, perm. legislation
- **Linked with....** CR, debt limit accord, or stand alone?
- **Another farm bill extension?** Last resort, but...

Why Effective Safety Net Needed Ahead

- **Potential key market changes ahead:** In 2015, 2016...
- **Higher interest rates:** Federal Reserve strategy
- **Higher U.S. dollar:** Impact on exports
- **Corn ethanol blend wall:** Will exports take up the slack?
- **Increased yields:** 'Normal' weather eventually, and...
- **Lower prices:** How low depends on carryover buildups
- **Barometers:** Watch farm equipment and land values

Much of area exiting CRP located in Plains states



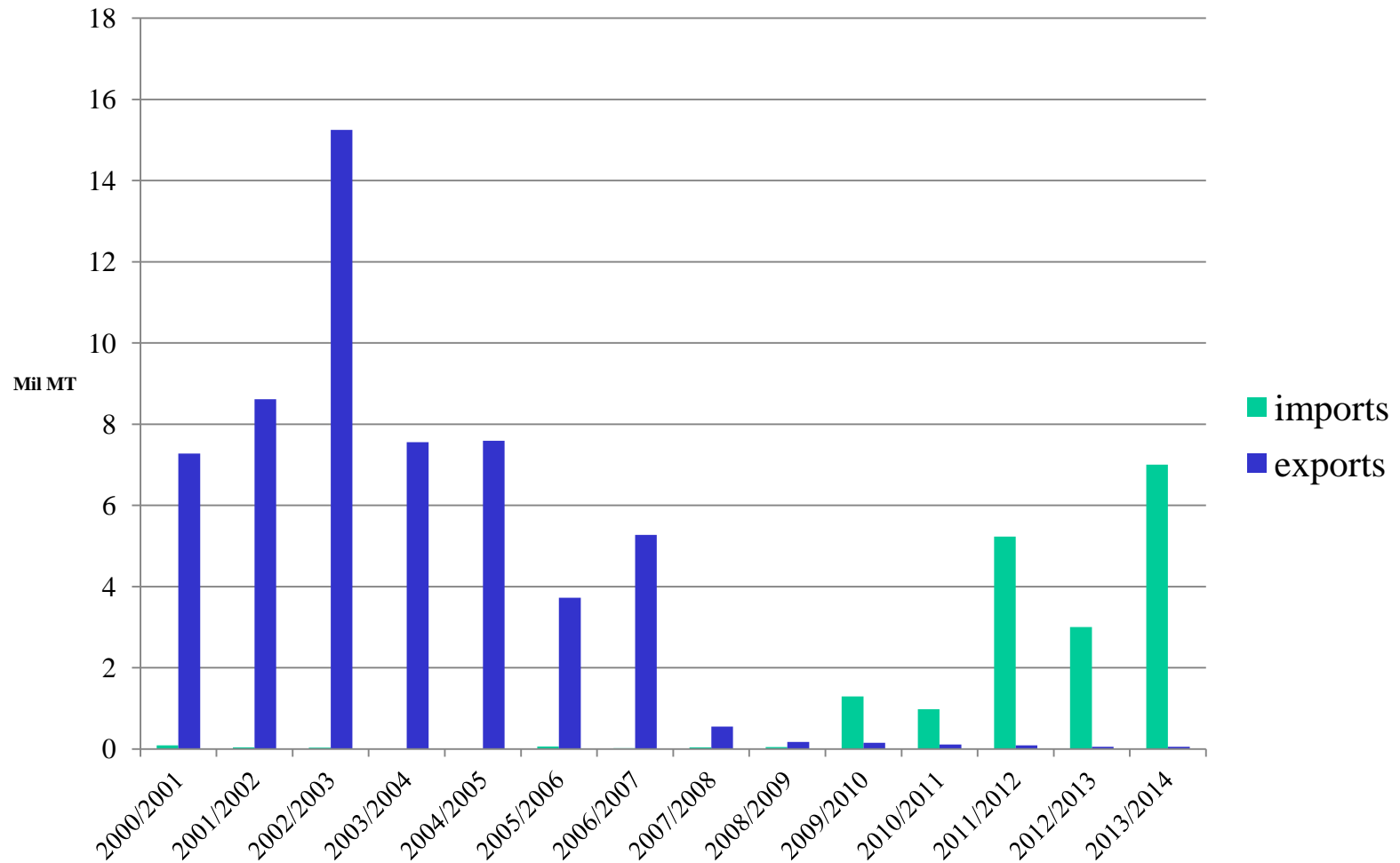
Recent Gains in Corn Acres Mostly Came Via Switching Out of Other Crops and Hay

Planted acreage 8 major crops plus hay*			
	average 1999-2001	2013F	change
Corn	77.6	97.4	19.8
Wheat	61.6	56.5	-5.1
Soybeans	74.0	77.2	3.2
Cotton (all)	15.4	10.0	-5.4
Sorghum	9.6	7.2	-2.4
Barley	5.3	3.5	-1.9
Oats	4.5	3.0	-1.5
Rice	3.3	2.5	-0.8
Hay	62.2	56.6	-5.6
sum	313.6	313.9	0.3
sum excl corn	236.0	216.5	-19.5
*harvested acres for hay, planted est. not available			

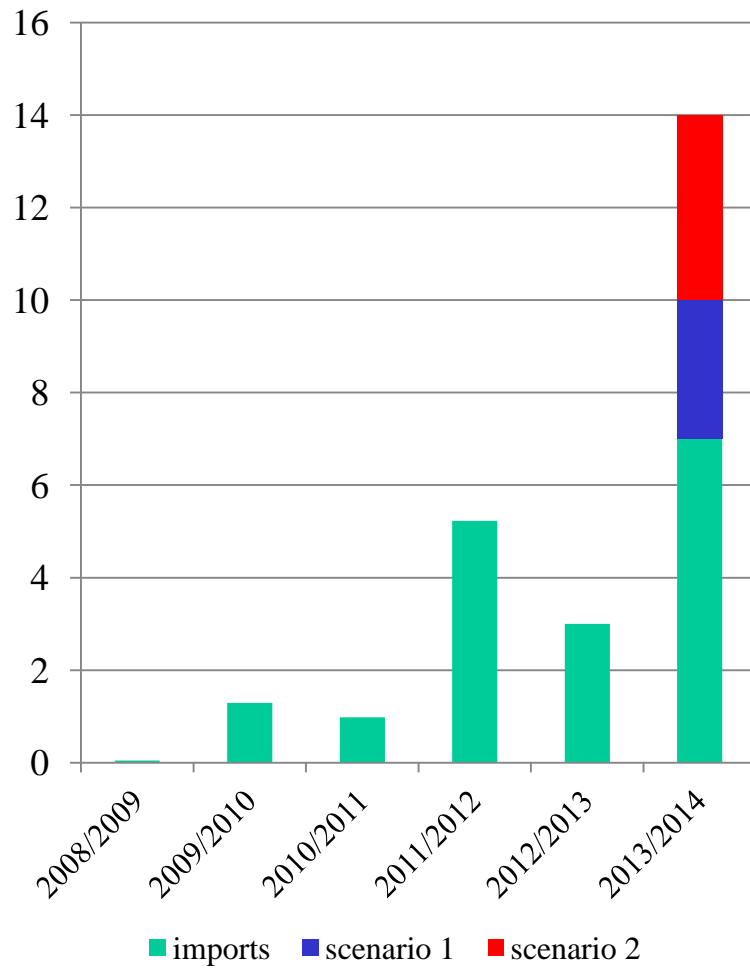
Facing a Market Adjustment or Sea Change?

- “We are returning to a more normal scenario following a period of really abnormally high prices.” Darrel Good, University of Illinois.
- And now “the hangover”.....Bob Utterback, market adviser.
- Farm income, crop prices, and planted area projected to decline.
- What will provide the demand boost as ethanol gains begin to flatten out?

China Corn Trade: Imports Increasing



China Corn Scenarios: Higher Imports in 2013 Could Raise U.S. Exports and Bump Up Price



- Assume imports increase from 7 million mt. now forecast to 10 million.
- Assuming U.S. sourced corn, this would add 120 million bushels to exports, and would likely add about 10 cents to the price per bushel.
- If imports increase more, say to 14 million mt., then the impact would be larger, probably 20 cents or more as it would signal a bigger turning point in China's trade.

Target: Crop Insurance



Issue: Crop Insurance - 2012

- Record indemnities for 2012 crops: **\$17.407 bil.**
- Total premiums at \$11.11 bil. mean **loss ratio at 1.57**
- Prior record payout year 2011 - \$10.839 bil. w/loss ratio 0.91
- Loss ratio hasn't been above 1.0 since 2002
- Record net insured acres at **283.008 million**
- Risk Protection policies covered 62% of net acres insured
- \$14.395 bil. in RP indemnities accounted for 82.6% of all payouts

Issue: Crop Insurance - 2013

- 2013 indemnities already rising: **\$3.909 bil.**
- Wheat payouts already at **\$1.757 billion**
- Corn (**\$750 mil.**), cotton (**\$564 mil.**) and soybeans (**\$249 mil.**) lead indemnities other than wheat.
- Net acres insured at **293.922 mil.** set new record
- Nearly 65% of net acres insured covered by RP with more than 84% of payouts on RP policies
- Keys ahead: Prevent plant claims in Midwest, drought in western Corn Belt, Plains

Potential Changes: Crop Insurance

- Reducing premiums
- Ending or curbing use of harvest price option
- Reducing crop revenue coverage options
- Limit practice of dividing a farm's coverage into separate units
- Surcharge on high-risk coverage
- Reducing subsidies for high-grossing farms

Outlook for elections

- **2014 Congress**

- **House:** GOP likely will retain control
- **Senate:** Key is candidates

- **2016 President**

- **Democratic** candidate
- **Republican** candidate

The New Normal? A Reversal

- ❖ **Democrats:** Natural advantage in statewide races (President & *maybe* Senate)
- ❖ **Republicans:** Coalition is tailor-made to win the majority of House districts



Democrats	Republicans
- Are Urban, More Minority, Younger	- Are Rural, Whiter, Older
- Sufficient to Win Statewide Elections	- Sufficient to Win Most Districts
- Turn Out ↑ in Presidential Elections	- Turn Out ↑ in Midterm Elections

Problem: Today, (unlike the 1980s), Almost No Incentive for Bipartisan Dealmaking



- ❖ **Moderates** have been “washed out” in recent wave elections. 47% of House GOP was elected after 2009 by running *against* their party’s leadership.
- ❖ **No Deadline:** Partisans wait until 11th hour to strike deals or risk being seen as “giving in” by base. Or, if no looming catastrophe, why strike deal at all?
- ❖ **Law of unintended consequences:** Moratorium on earmarks has weakened House GOP leadership’s ability to whip votes.
- ❖ **The next election:** Democrats think they can take back the House in 2014, Republicans the Senate. Why compromise now, when you can get it all later?

2014: The House



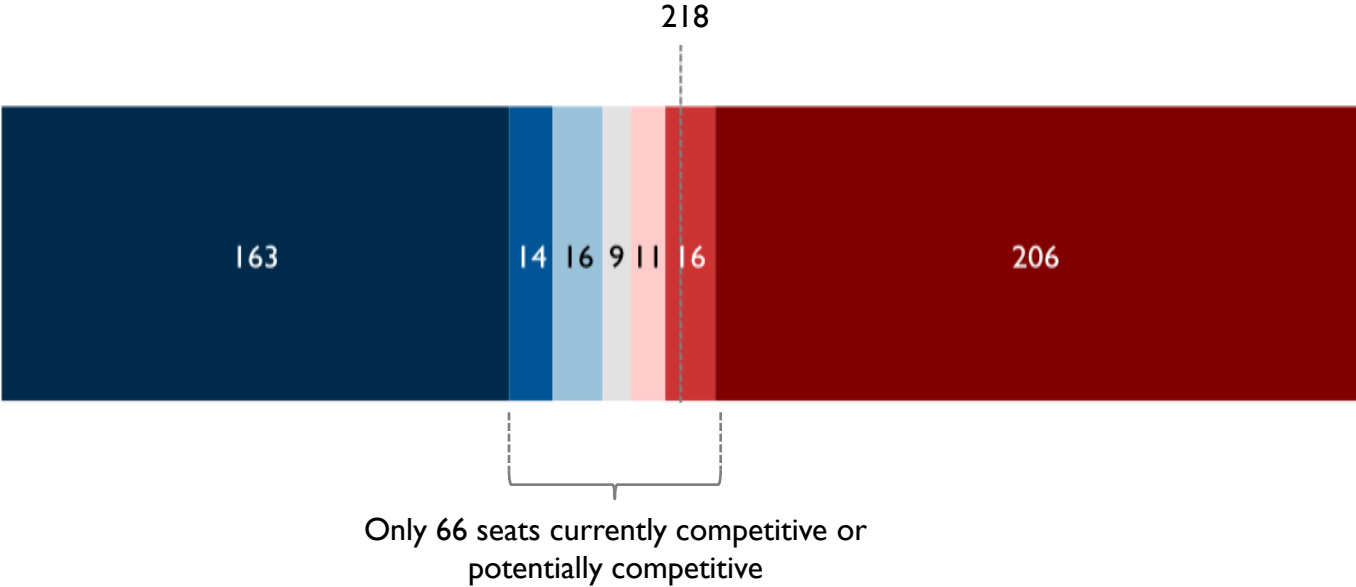
Today: 234 Republicans, 201 Democrats (Democrats
need +17 seats to win control)

Cook Outlook: GOP gain of 2-7 seats

Only 66 Competitive or Potentially Competitive Seats in the House in 2014

Number of House seats in the 113th Congress, by party

■ Solid Democrat ■ Likely Democrat ■ Lean Democrat ■ Toss-Up ■ Lean Republican ■ Likely Republican ■ Solid Republican



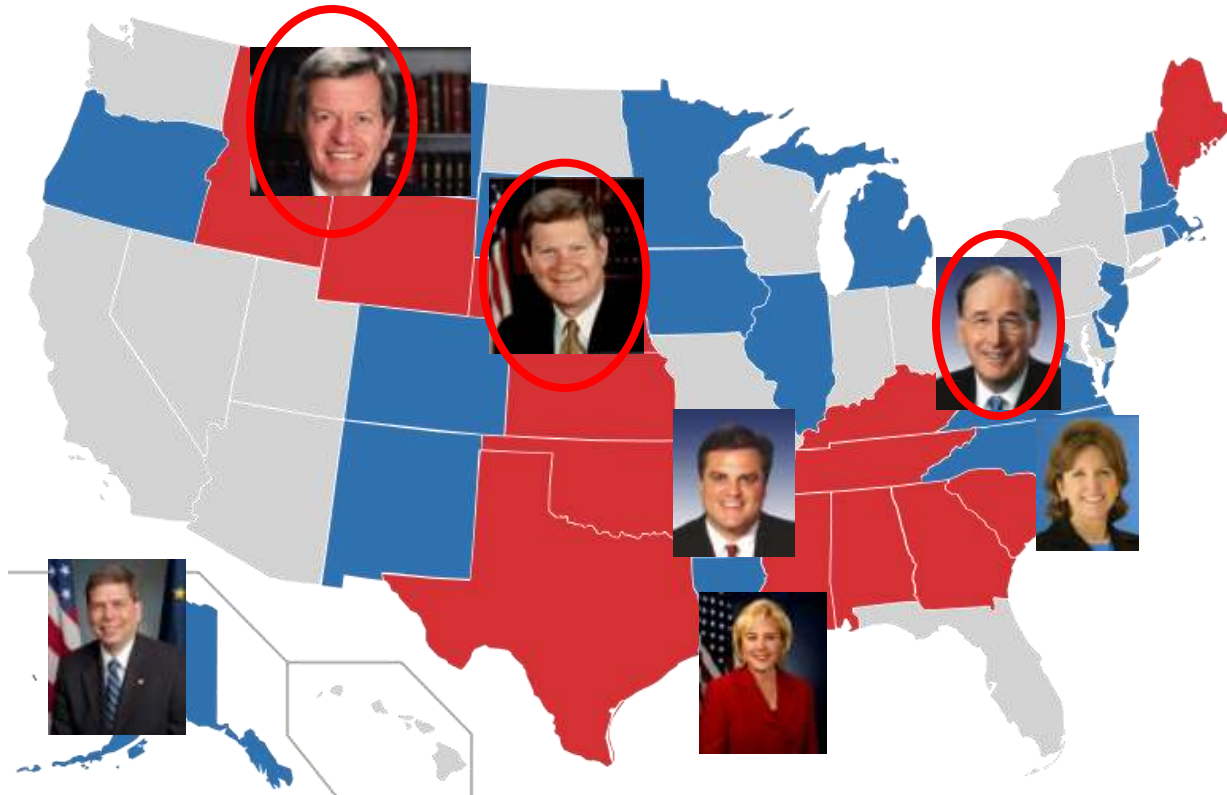
2014: The Senate



Today: 54 Democrats (including 2 Independents caucusing with Democrats), 46 Republicans

Cook Outlook: GOP gain of 3-5 seats. Senate control in 2015 is a Toss Up.

Democrats Must Defend 7 Seats in States Romney Won:



- ❖ Retirements in MT (Baucus), SD (Johnson), WV (Rockefeller)
- ❖ Incumbents: Begich (AK), Pryor (AR), Landrieu (LA), Hagan (NC)

Just As in the House, Democrats Have Few “Real” Opportunities to Play Offense



- ❖ Question is, will GOP primary voters “blow it” like they did in 2012? Look to Georgia, not Kentucky, for clues.



2016: It Began Before 2012 Ended



GOP Grappling With a New Demographic Reality



1980: Ronald Reagan

56% of the White Vote

Won by 10%

Won 489 Electoral Votes

2012: Mitt Romney

59% of the White Vote

Lost by 4%

Won 202 Electoral Votes

So What Changed?



White Share of Electorate, 1980

88%

White Share of Electorate, 2012

72%

❖ Obama won 71% of Latino voters & 73% of Asian-Americans

❖ But is the GOP doomed in 2016? Not so fast...

No RNC “Outreach” Programs Will Fix GOP’s Problems. Only a New Nominee in 2016 Can.



❖ The “Can Wins”
(Rubio, Christie, Bush)



❖ The “Can’t Wins”
(Cruz, Paul, Santorum)



❖ The “Maybes”
(Walker, Ryan, Jindal)



Meanwhile, on Democratic Side, Will She or Won't She?



- ❖ For all of Republicans' current problems, remember: it's Democrats may be lacking in "new blood" come 2016.
- ❖ If not Hillary or Joe Biden, who? Cuomo, O'Malley, Warner, Hickenlooper, Gillibrand?

On Election Night 2016, Watch...



2012: Obama 19,712 Romney 19,369

QUESTIONS