U.S. Agricultural Policy—the 2013 Farm Bill and Beyond

Stephanie Mercier
Annapolis, MD
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Farm Bill—Still the Center of the Farm Universe?

• Not so long ago, almost all the federal policy issues that mattered to U.S. agriculture were contained within the farm bill process
• Increasingly, U.S. agriculture has become more diverse and more sensitive to macro policies and forces outside the jurisdiction of the House and Senate Ag Committees
• In an effort to stay ahead of the game, the farm bill has added several new separate titles in the last few rounds
  – Conservation (1985)
  – Livestock (2008)
  – Horticulture and Organic Agriculture (2008)
• These moves also reflect an effort to appeal to a broader set of interest groups and constituents, in large part because the geographic area where production agriculture is still a key part of the local economy has been shrinking over time
2013 Farm Bill-Timeline

- Farm bill process started in September 2011 with effort to attach truncated package to Super Committee legislation
- Process stalled in 2012 when Senate passed bill but House failed to do so
- 2013 Senate farm bill process working smoothly—passed in May with bipartisan vote (66-27)
- 2013 House farm bill process, not so much
  - Reported out of Committee on 35-10 vote in June
  - Failed on House floor in June
  - Brought back w/o nutrition title in July, passed on party-line vote (216-208)
  - Nutrition-only bill passed in September, also on party-line vote
- House re-merged the two bills, appointed conferees on October 12
- First public meeting of conferees held on October 30—many members emphasized the importance of the bipartisan tradition in crafting farm bills, the need to finish the bill to show Congress could still do its job
- Committee leadership have been aiming to be done by end of 2013, to avoid triggering dairy price supports under permanent law

Source: Farming-dependent counties are defined by ERS. Metro/nonmetro status is based on the Office of Management and Budget (OMB) June 2013 classification.
Key Commodity Support Changes in 2013 Farm Bill

- Many changes to the array of commodity and crop insurance programs—elements common to both versions
  - Ends direct payments
  - Ends CCP, ACRE programs
  - Keeps marketing loan program
  - Both bills establish new price-based support and revenue-based (shallow loss) programs, with some important differences in features
  - Establishes Supplemental Coverage Option (SCO) in crop insurance title as separate shallow loss program
  - Tightens payment limitations, definitions of ‘actively-engaged farmers’
  - Upland cotton producers not covered by price-based or revenue-based support programs in Title I, have specialized shallow loss program established under crop insurance title (STAX). Aimed at addressing WTO cotton case won by Brazil.
  - Dairy price support and MILC programs replaced by margin insurance program

Key Changes in Other Titles

- Reduces CRP acreage cap (down to 25 million-Senate, 24 million-House)
- Combines other conservation easement programs
- Senate bill makes modest reforms to international food aid programs
- Both bills tighten LIHEAP loophole for SNAP
- House bill also ends categorical eligibility for SNAP and eliminates waiver for adult recipients w/o dependents
- Establishes foundation to encourage private sector collaboration on agricultural research
Key Differences in Overall Farm Bill

- SNAP spending cuts ($39 billion versus $4 billion over 10 years)
- Length of farm programs (5 years) versus SNAP reauthorization (3 years in House bill)
- House bill replaces underlying permanent law (1938 and 1949 Acts) with Title I of this farm bill
- Composition of program crop support in commodity title, planted (House) vs. base (Senate) acres
- Dairy policy changes, particularly supply management component
- Conservation compliance linkage for crop insurance
- Reducing crop insurance premium subsidies for high AGI farmers
- Composition of funding for working land programs
- Mandatory funding for renewable energy programs

House versus Senate Reference Prices for Price Loss Program

Source: WASDE report, USDA
What’s the End-Game for the 2013 Farm Bill?

- Extension of 2008 farm bill expired on September 30—agricultural policy is now under permanent law
- If House and Senate conferees agree to a bill, likely to have SNAP reductions somewhere between Senate bill (−$4 billion) and House Ag Committee-reported bill (−$20 billion)
- No deal reached as of November 22nd, when Congress went on Thanksgiving recess. Unlikely to finish in 2013, maybe get it done early in 2014
- Under permanent law, USDA will have to implement dairy price support system as of January 1, which could double retail milk prices
- Will only pass House as stand-alone bill if the Speaker is willing to take to floor without being certain of majority support from GOP caucus
- Another possibility being discussed is to tack it onto the package coming out of the budget conference committee, since that process will be looking for offsets
- This whole scenario is entirely new territory for farm bills—no one can be sure what will happen next
- Keep in mind that this is not emblematic of a failed farm policy process, but a dysfunctional Congressional process

Other Policies and Forces Affecting U.S. Agriculture

- Federal budget deficit
- U.S. biofuels policy
- U.S. immigration policy
- U.S. transportation policy
- Global Food Security
- Climate Change
- International Trade Policy Environment
Federal Budget Policy

- Massive shift in the federal budget picture during the time I worked on Capitol Hill
- During the 1990’s, combination of strong economy and strategic tax increases pushed by President Clinton led to budget surpluses
- In the following decade, two rounds of Bush tax cuts, two wars, and Medicare drug benefit all pushed federal government into deficit
- Most recently, 2007-09 recession, 2009 stimulus bill pushed annual deficit over $1 trillion
- The Budget Control Act of 2011 (including sequestration) cut spending and 2013 fiscal cliff package allowed some upper income tax cuts to expire
- Federal deficit on a downward trajectory for next few years, but further efforts to reduce deficit have slowed to a crawl
- The so-called ‘Grand Bargain’ appears to be off the table for now
- Current budget conference committee process focused on forestalling sequestration cuts for next 1 or 2 fiscal years. Due to complete work by Dec. 13
Farm Spending as Share of Federal Budget

- In recent decades, the share of federal spending under the jurisdiction of the Agriculture Committees has declined, at the same time that the composition has shifted.
- The Committees’ commitment to generating budget savings as part of their farm bill represents a determination to keep as much control over their process as possible.
- During the Super Committee’s deliberation in 2011, there were some reports that their envisioned package might eliminate direct payments.
- Both the House and Senate farm bills also eliminate direct payments (as well as CCP and ACRE) but funnels 75 percent of potential savings from these actions back into the farm safety net (farm and crop insurance programs).

![Chart: Farm Program and Nutrition Spending as Share of Federal Budget, Selected Years](chart.png)
Future of U.S. Farm Economy

- Strength of net farm income in the current decade has largely been due to expanding feedstock demand for renewable fuels, not traditional commodity programs.
- Since 2002, U.S. ethanol demand for corn has increased by more than 3 billion bushels, which translates to nearly 20 million acres of cropland at U.S. average yields.
- Can no longer tell a story about the U.S. farm economy and U.S. federal policy without talking about biofuels.
- Ethanol tax credit and import tariff were allowed to expire at end of 2011—not under Ag Committee jurisdiction, but Senate Finance and House Ways and Means Committees.
- Biodiesel credit also lapsed at end of 2011, but restored retroactively (and for 2013) in fiscal cliff package adopted in early 2013.
The RFS Has Been Driving the Boom in U.S. Ethanol Production

• The major driver of U.S. ethanol demand is the Renewable Fuel Standard, under the jurisdiction of the Senate Environment and Public Works (EPW) and House Energy and Commerce Committees
• Since it was first enacted in 2005, the RFS requirement has been a binding constraint on U.S. ethanol output only in 2009 and 2012
• In fact, the current ethanol boom is ‘fueled’ in large part by the rapid rise in oil and gasoline prices
• Ethanol plants will produce as long as they continue to show a profit, and that is determined largely by the oil/gasoline price complex
• The ‘boom’ has begun to stall even though EPA approved an increase in the blend percentage for ethanol in gasoline from E10 to E15 in 2012 for cars sold in 2001 or later
• With the proposed change to the RFS in play for 2014 due to EPA’s concerns about the ‘blend wall’, ethanol use of corn could well account for declining share of demand over next several years, with resulting softening of crop prices across the board

Federal Immigration Policy-the Current Environment

• According to the 2007 Census of Agriculture, there are 2.6 million hired workers in the sector, about half in specialty crops
• At least one million of those are undocumented immigrants
• The H2A visa program for seasonal agricultural workers provides legal status to less than 100,000 workers (between 5-10 percent of total), and most farmers don’t go through the program because it is highly bureaucratic, costly ($1K per worker) and subject to significant delays
The Effort to Achieve Comprehensive Immigration Reform

- Agricultural portion of Senate bill negotiated between farm groups, farm labor groups, and Senators Feinstein, Bennet, Hatch, and Rubio
  - Sets up separate process to citizenship for farm workers
  - New rules on wages, good working conditions
  - New visa program—available for 3 years, subject to renewal
- The overall bill (S. 744) went through extensive hearings and a lengthy mark-up in the Senate Judiciary Committee, passed the full Senate on bipartisan vote in June (68-32)
- The comprehensive process is stalled in House—GOP members balking at approving a path to citizenship for estimated 11 million undocumented immigrants already in U.S.
- House pursuing piecemeal approach for now, with focus on border enforcement
  - Farmworker component passed House Judiciary Committee in June with new visa system, includes no path to citizenship (passed on party-line vote)
  - House GOP leadership has declared will not take up immigration reform on floor in 2013
U.S. Transportation Policy

- Farm products move by a variety of transportation modes
  - Domestically, by truck, rail, and barge
  - Internationally, primarily by ship (86 percent)
- The different land-based modes of transportation fall primarily under the Senate Environment and Public Works (EPW) and House Transportation and Infrastructure (TIC) Committees
  - Revenue portion to Senate Finance and House Ways and Means Committees, such as the gas tax
  - Addressed in omnibus legislation every five years or so, much like a farm bill
  - MAP-21 bill passed and signed by the President in April 2012
- Issues relating to water transportation (locks and dams, ports) also under EPW and TIC, but in separate legislation, the Water Resources Development Act (WRDA)
  - Senate passed WRDA bill in May, House in October, conference underway
  - A 2013 study by the American Society of Civil Engineers estimated that $3.6 trillion needs to be invested by 2020 to bring U.S. public infrastructure up to par

Transportation Modes for U.S. Agricultural Commodities, 2002

Source: Census Bureau, Commodity Flow Survey
Overarching Issue—Global Food Security

- The UN’s food agencies estimate that in order to feed a more than 9 billion global population by 2050, world food production will have to increase by between 70-100 percent.
- Given constraints on land and water availability, much of the improvement will have to come from increasing yields and reducing food waste.
- There’s a lot of room for improvement in both areas—for example, corn yields in Subsaharan Africa are less than a third of average corn yields globally.
- U.S. government is providing both s-t assistance (food aid) and l-t help (agricultural development) totaling about $4 billion annually.
- The food aid programs are under Ag Committee jurisdiction, but agricultural development (primarily Feed the Future) is overseen by House Foreign Affairs (HFAC) and Senate Foreign Relations (SFRC) Committees.

Corn Yield Comparisons 1961-2010

Source: PS&D database, FAS/USDA
Impact of Climate Change on Agriculture

• As an industry uniquely dependent on weather, agriculture has a lot to lose if climate change is allowed to proceed unchecked
• Potential impacts include
  – Longer and more severe droughts reducing crop yields
  – More frequent severe weather damaging crops and livestock
  – Increased losses from pests, disease (both crops and livestock)
  – Increased production costs due to more irrigation, higher application of agricultural chemicals
• Developing countries’ ag sectors more vulnerable, less able to afford to adopt practices to mitigate and adapt to increased climate stress
• Currently, only about 6 percent of cropland in Africa is irrigated

U.S. Response to Climate Change

• The U.S. government still grappling with significant (and influential) minority that either does not accept that climate change is occurring, or deny that it is largely the product of human intervention
• The U.S. declined to ratify the Kyoto Climate Change Protocol during George W. Bush presidency (has 83 signatory states)
• House barely passed cap and trade bill to address climate change in 2009, never taken up by Senate
• This issue is primarily under the jurisdiction of Senate EPW and House Energy and Commerce Committees, though Waxman-Markey bill was cross-referred to several committees
• In 2013, President Obama committed to taking executive action in lieu of legislation, initially likely to take form of restrictions on GHG emissions from power plants
• U.S. is the second largest emitter of greenhouse gases derived from energy use in the world (China #1 since 2007)
International Trade Policy Environment

- Doha round of multilateral trade negotiations in the WTO has been stalled for about 5 years
- As of 2013, the WTO has been notified of more than 500 regional trade agreements covering trade in goods and/or services
- The U.S. has 14 bilateral or regional trade agreements with 20 countries, and is negotiating new agreements under the Trans Pacific Partnership (5 new partners) and the European Union (now 28 members)
- Legislation to implement FTA's go through Senate Finance and House Ways and Means Committees, usually under so-called 'fast track' procedure
- Despite lagging in the trade negotiation arena, U.S. agricultural exports have done well in recent decades, with the value of exports more than doubling since 2005.
- Agricultural exports have stalled somewhat in the last few years with the effects of the global recession dampening demand and last year’s severe drought limiting supply somewhat, but the picture remains strong.
- USDA's current 10-year baseline projects that U.S. agricultural exports will continue to grow at a 3.7 percent annual rate, even without any new trade policy breakthroughs

U.S. Agricultural Exports--Strong Growth Record

Source: USDAERS.
Whither the Doha Round?

- Negotiations have been stalled since July 2007 Ministerial meeting in Geneva
- Urgent talks held in November in Geneva to try to resurrect some components to have deliverable results for December’s Ministerial meeting in Bali
  - Trade Facilitation
  - Agricultural export competition
  - ‘Restraint’ on public stockholding for food security purposes in developing countries (India’s new $22 billion program)
  - Administration of TRQ’s
- WTO members failed to agree to terms in Geneva. If Ministers in Bali prove unable to close the gap this week, may see several year hiatus before WTO members will attempt a new multilateral Round of trade negotiations

Concluding Remarks

- The drive to pass a 2013 farm bill has become more urgent in the face of EPA’s proposed reduction in RFS levels—a delay into 2014 will mean CBO scoring bill against a new baseline, with unknown impacts on crop prices and cost of programs
- U.S. agriculture is uniquely vulnerable to an array of outside forces among U.S. economic sectors, which is why support for farmers has always been politically acceptable
- As Agriculture Secretary Vilsack said in a December 2012 speech, U.S. agriculture needs a proactive message to better communicate with the general public about the need for farm policy, not a reactive message.
For Further Information

• Stephanie Mercier
• Agricultural Perspectives
• E-mail: smercier27@gmail.com