

POLITICS & POLICY

...Volatility continues

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Fiscal and Monetary Policy: Setting Stage for 2011 and Beyond



Budget Impasses Will Continue Into 2012

2011 Congress / White House

✓ Deficit reduction will dominate Congress through session.

- Debt Ceiling: *major debate*
- FY 2012 budget: Oct?
- Spending cuts
- Revenue increases
- Policy changes through funding levels.

Regulatory activities:

✓ Agenda may accelerate
Food safety, environment, nutrition, etc.



Funding Issues

- ▣ Political parties skirmish over road ahead:
 - Fiscal Year 2011: Cuts impacting agriculture
 - Fiscal Year 2012 / Budget Resolution
 - Need to hike debt ceiling

Funding Issues

- ▣ A shift toward fiscal restraint
 - Linkage: Debt ceiling hike, cut spending
 - Long term: lower debt via combination of
 - ▣ Spending cuts
 - ▣ Tax increases

Where the Money Goes

Where the Money Goes Fiscal 2012 outlays, in billions

Health and Human Services	589.7
Social Security Administration	814.9
Defense—Military	707.4
Interest on the federal debt	454.1
Agriculture	144.0
Veterans Affairs	124.3
Labor	103.9
Transportation	83.6
Treasury	86.3
Office of Personnel Management	89.1
Education	79.9
Other Defense—Civil Programs	51.5
Housing and Urban Development	49.4
Homeland Security	46.9
Energy	41.4
Other Independent Agencies	34.4
Justice	33.1
State	32.5
International Assistance Programs	29.4
National Aeronautics and Space	18.2
Interior	13.8
Commerce	13.1
EPA	10.0
Corps of Engineers	8.0
National Science Foundation	7.9
The Judiciary	7.6
Legislative Branch	5.3
General Services Administration	2.1
Small Business Administration	1.2
Executive Office of the President	0.6

Ethanol Policy

- ▣ Tax incentive, import tariff ends 12/31/11
 - What will happen?
 - Ethanol proponents' rearguard proposal
 - Cut VEETC to 20-cents 2012; 15-cents 2013
 - Similar cuts for import tariff
 - After 2013, VEETC based on crude oil prices
 - Pressure to alter mandate, but...
- ▣ Obama administration strategy

Next Farm Bill

- ▣ How much to spend?
- ▣ 37 unfunded programs
- ▣ Timeline will be affected by budget
- ▣ Will farm bill be written on House, Senate floor?

Farm Bill Issues

- ▣ Direct payments
- ▣ Crop insurance/revenue assurance/safety net
- ▣ Conservation Reserve Program (CRP)
- ▣ Food and nutrition funding
- ▣ Dairy reform

Trade Policy

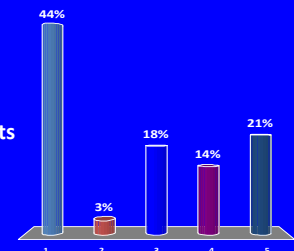
- ▣ Free Trade Agreements
 - Odds increase for S. Korea, Colombia & Panama
 - Timing: Fall -- White House wants TAA linkage
 - USTR Kirk: Combining FTAs legally not an option
 - USTR still working on Korea GI dairy issue, beef access
 - Korea FTA changes separate legal agreement
 - Panama completes FTA outstanding issues
 - Labor issues worked out with Colombia
 - Trade promotion authority

Trade Policy

- ▣ Need for USDA trade policy overhaul
 - Still stuck in 1960s platform
 - Foreign Ag Service needs better focus
 - Need Undersecretary for International Trade at USDA
 - FSIS | APHIS | AMS | FAS
 - Issues: Day to day: Russia, China, Taiwan, Mexico
 - Issues: Longer term: Trade agreements, working w/USTR

What is biggest impact to farming operations in the next several years?

1. Regulations
2. Farm program cuts
3. Credit/financing
4. Competition from overseas farmers, govts
5. Trade



What will Congress do

- House Ag Committee will review regs based on the following questions:
 - Is EPA following the law?
 - Is EPA making regulatory decisions based on sound science and data?
 - Is EPA conducting adequate cost-benefit analyses?

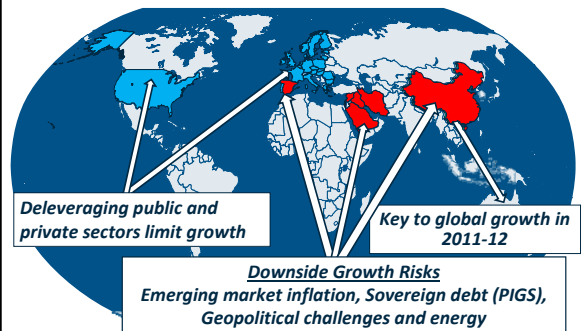
What will Congress do

- Court settlement details
 - Rep. Peterson wants more of the legal settlements reached to be made public.
- Cost-Benefit analysis
 - Many want to see this given more influence in EPA regulatory actions.

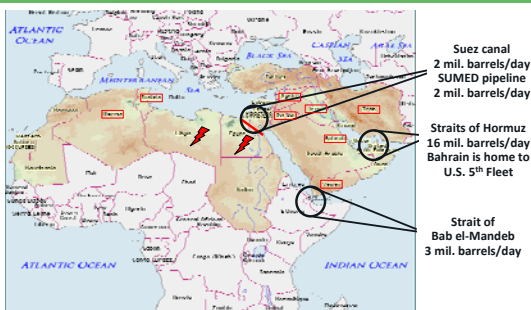
What will Congress do

- Votes on removing EPA reg authority
 - Votes in Congress, but approval isn't likely by both chambers, particularly Senate
 - Obama wouldn't sign anyway
- Appropriations
 - Likely route to impact EPA and other gov't regs
 - Tool has been used before in other areas

An Interdependent World in Economic and Political Transition



Middle East Turmoil Will Keep Oil Markets Unsettled Well into 2011



Oil Price Impacts Can Be Significant and Globally Diverse

Top World Oil Exporters*	
	Exports Thousand barrels per day
Saudi Arabia	7,322
Russia	7,194
Iran	2,486
UAE	2,303
Norway	2,132
Kuwait	2,124
Nigeria	1,939
Angola	1,878
Algeria	1,807
Iraq	1,764
Venezuela	1,748
Libya	1,525
Kazakhstan	1,299
Canada	1,144
Qatar	1,066

Oil Price Impacts

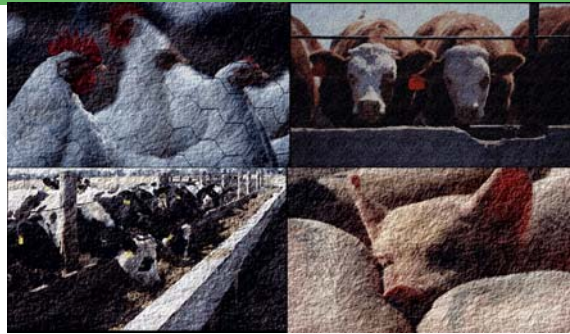
\$10 per barrel increase in oil prices

+24-25 cents per gallon for gasoline

+\$30-35 billion in consumer gasoline expenses diverted from other markets and reducing economic growth.

Note: Current Middle East disruptions impact sweet crude. OPEC excess supplies are sour and harder to refine. U.S. has substantial sour refining capacity. Limited capacity in Europe and almost none in Asia

Livestock, Dairy and Poultry



Livestock Industry Challenges

- MCOOL challenge goes against US - little impact
- Antibiotics... waiting on GAO reports
- GIPSA rule: House Ag Approps bars implementation
- Mexico trucking issues
- NPPC asks USDA to address potential feed shortages
 - 'Contingency plan' should corn demand exceed supply
- Food Safety & Animal Welfare issues remain
 - FSIS and non-ambulatory animals
- Domestic/Export: What can consumers afford?
 - Food prices – Supply – Dollar – Trade policy

Food Prices on the Rise

- ☐ USDA food prices increases:
 - Food at Home: 3.5% to 4.5% rise
 - Away from Home: 3% to 4% increase
- ☐ Each 1% rise equals \$12 billion
- ☐ Attention of Clinton, World Bank
- ☐ Trade policy restrictions

FAO Food Price Indices



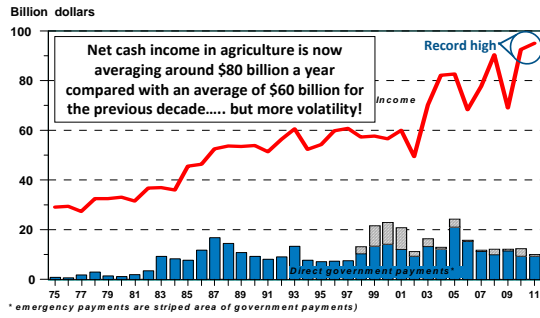
FAO Food Price Index



Economic Conditions Increasingly Diverse in Agriculture



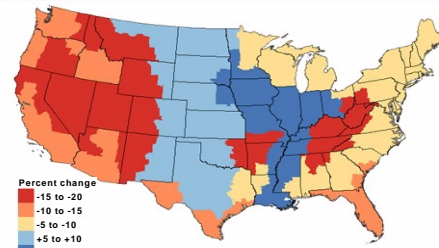
Farm Income: Agriculture Continues Strong Performance



Dramatically Different Farm Income Expectations by Region



Change in Farm Net Cash Income from 2010 to 2011



Source: USDA Economic Research Service partial budget model based on the 2009 Agricultural Resource Management Survey (ARMS) using parameters from the sector forecasts.

THANK YOU!