



Regulations, the Farm Bill & Your Farm

What to expect from the next US farm bill

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Connecting the Dots on Risks

- ✓ **ECONOMY:** World & U.S.
- ✓ **WILD CARDS:** International, Budget, Debt Limit
- ✓ **ELECTIONS:** House, Senate, States, President 2016
- ✓ **Obama:** SOTU, Executive Orders, Power of veto
- ✓ **ENERGY:** Prices, XL Pipeline, RFS
- ✓ **TAX POLICY:** Not if, but when and what
- ✓ **TRADE:** TPA, TPP, Cuba, COOL, Mexico sugar
- ✓ **FARM POLICY:** Current farm bill, next farm bill

State of the Union Message

- ✓ **Theme:** 'Middle Class Economics'
- ✓ **Spending:** \$235 billion in new spending proposed
- ✓ **Taxes:** Hike cap gains rate, new inheritance taxes
- ✓ **Keystone:** Some give if broader focus
- ✓ **Trade Policy:** Push for TPA, TPP
- ✓ **Veto pen:** Ready for use

Agenda for the GOP-Controlled Congress

- ✓ **Budget** resolution, reconciliation will be vehicle
 - ✓ Obama's FY 2015 budget proposals Feb. 2
- ✓ **Health care reform:** Moves to repeal will fail; changes?
- ✓ **Energy:** Keystone XL Pipeline
- ✓ **Trade Policy Issues:** TPA, TPP, COOL
- ✓ **Tax Policy/reform:** GOP largely rejects admin. plans
- ✓ **Infrastructure,** transportation spending
- ✓ **Return to "regular order"** in Senate

Fiscal 2015 Spending Plan

- ✓ **\$1.1 trillion:** Funds all but Homeland Security rest of FY
- ✓ **Key provisions for ag:**
 - ✓ GIPSA restrictions on livestock rules
 - ✓ Dodd-Frank shifts collateral to hedge production
 - ✓ Restrict Clean Water Act actions in ag areas
 - ✓ Prohibit further rules on sage grouse
 - ✓ Requires removal of WOTUS Interpretive Rule

Keys in Tax Extenders

- ✓ **Section 179** expensing, with \$500K limit
- ✓ **50% bonus depreciation**
- ✓ **Biodiesel** production credit
- ✓ **Cellulosic ethanol** production credit
- ✓ **Wind energy:** Production tax credit
- ✓ **Further extensions likely** for 2015, possibly 2016

Deficit Situation Improved for Short Term

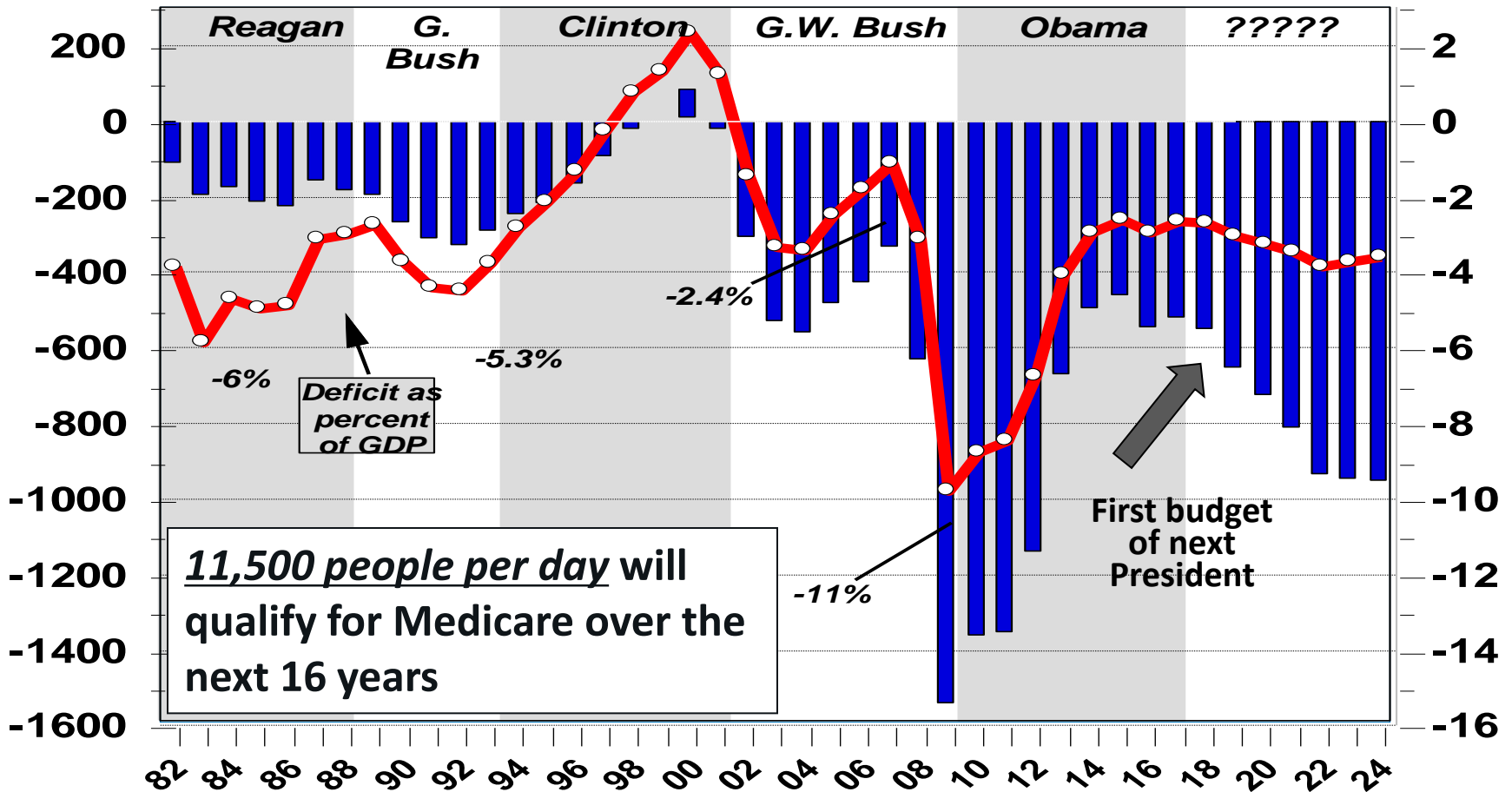
Will put focus on budget, not deficits

- ✓ Deficit peaked at \$1.4 trillion in 2009— 9.8% of GDP
- ✓ By FY 2014, gap narrowed to 2.8% of GDP, not far above 2.5% average from 1980 to 2008
- ✓ Focus off. In early 2013 a quarter of Americans thought the deficit was the most pressing problem. Now, barely a tenth do.
- ✓ Flip-flop: Republicans used to demand curbs to entitlements...now Democrats do in some cases

Short Term Deficit Relief Means Long Term Revenue and Spending Changes Are Post-2014

Deficit in billion dollars

Percent of GDP



11,500 people per day will qualify for Medicare over the next 16 years

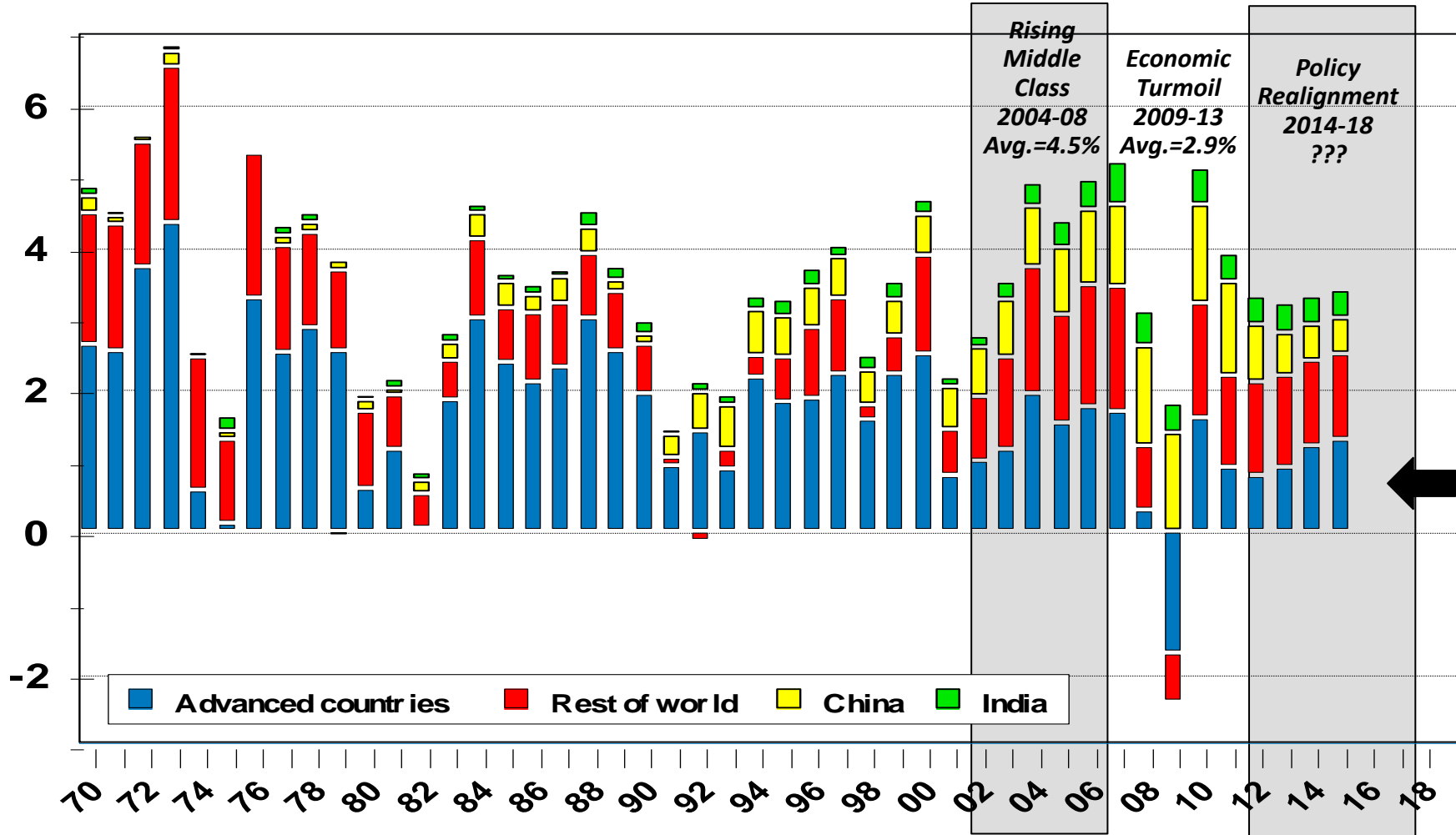
Source: Congressional Budget Office (August 2014), BEA and Treasury Department

Global Economy Risks

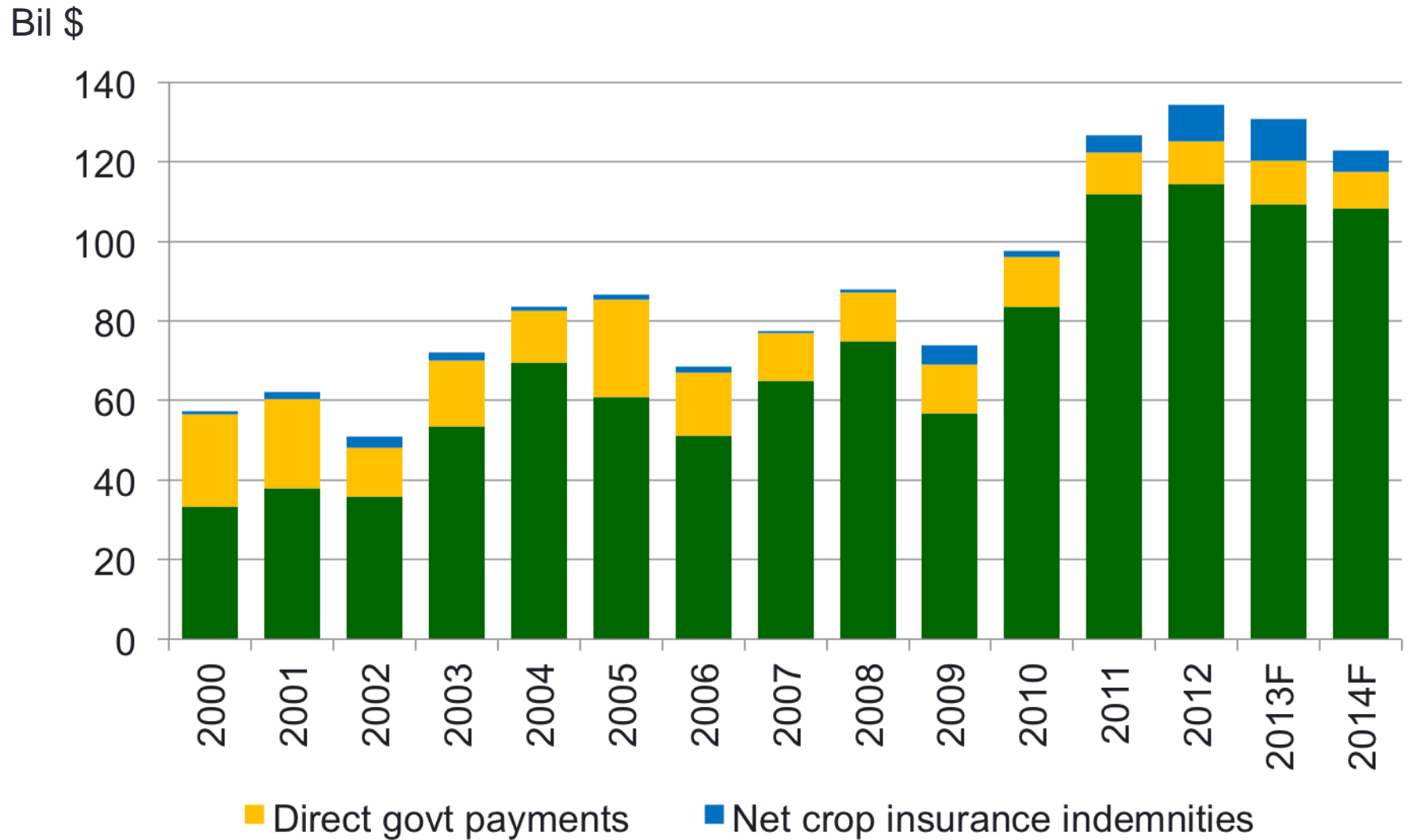
- **Eurozone vulnerability biggest containment**
- **China 6.5%-7.5% growth has risks to downside**
- **Japan will inject liquidity but struggle with reforms**
- **Middle East always a source of geo-political risk**
- **Emerging markets constrained**
- **Central banks must coordinate monetary policy adjustments and limit the adverse impacts of currency volatility.**
- **U.S. will be the growth engine for global economy**

Global Economy Reflects Tenuous Optimism That Risks Can Be Contained

Percent change in annual world growth (purchasing-power parity rates)



Net Cash Income Remains High



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
- **Increased crop yields:** If yields are big again this year...
- **Lower prices:** How low depends on carryover buildups
- **Barometers:** Farm equipment, land values, cash rents

2014 farm bill in place...

IMPLEMENTATION UNDERWAY

Process of converting legislative intent into regulatory authorities



- **Elimination of direct payments**, movement to insurance programs.
- **No safety net payments until Oct. 2015**
- **Some delays in program rollouts...but Vilsack flip-flops on APH.**
- **Changes in payment caps**
- **Actively engaged:** USDA details awaited.
- **WTO challenges ahead?**

Farm Bill Dates

- **Through Feb. 27:** Base reallocation, yield updates
 - Up to landowner
- **Through March 31:** ARC vs PLC election
 - Up to producer
 - Lawmakers specified who makes decision
- **Mid-April through Summer:** Signup for 2014, 2015 farm program.
 - Annual signup still needed

Farm Bill implementation

- **APH fix:** Not for winter wheat for harvest in 2015.
 - Most spring-planted crops for 2015
- **SCO:** Corn, cotton, cottonseed, grain sorghum, rice, soybeans, spring barley, spring wheat, and winter wheat in selected counties for the 2015 crop year.
 - Only for PLC participants
 - USDA may add up to 40 crops for 2016
- **Payment limit changes:** Unified limit, AGI test

Farm Bill Program Options

- **ARC-county favored by most Midwest producers.**
- **PLC favored by most rice, peanut growers, and some wheat producers.**
- **PLC favored by producers who like SCO option, unavailable for ARC choice.**
- **PLC bests ARC in 2016-2018 if MY avg prices fall below \$3.70 corn, \$8.40 soybeans, \$5.50 wheat.**

Farm Bill Program Options

- **Using Nov. WASDE price projections, potential 2014-crop payouts...**
 - **Corn:** ARC-CO payouts of \$36-\$79 per base ac. PLC \$0-\$65
 - **Soybeans:** ARC-CO \$0-\$24. PLC \$0
 - **Wheat:** ARC-CO \$0-\$18. PLC \$0
- **Note:** Some counties in OH and IN have an Olympic avg corn yield between 150-150. But in 2014, many yields exceeded 2013, which was a record. If the MY avg price ends up in the \$3.70 range, that could put them out of any payment, and certainly not a maximum payment.

Farm Bill implementation

- **Actively engaged:** Proposed rule headed to OMB soon
- **Key phrase:** 'Materially participate' in farming operation
- Filing of Schedule F
- Timing of release unclear

The Next Farm Bill

- **Economic environment.**
- **Players.**
- **Simplification.**
- **Analysis of current bill.**
- **WTO challenges**

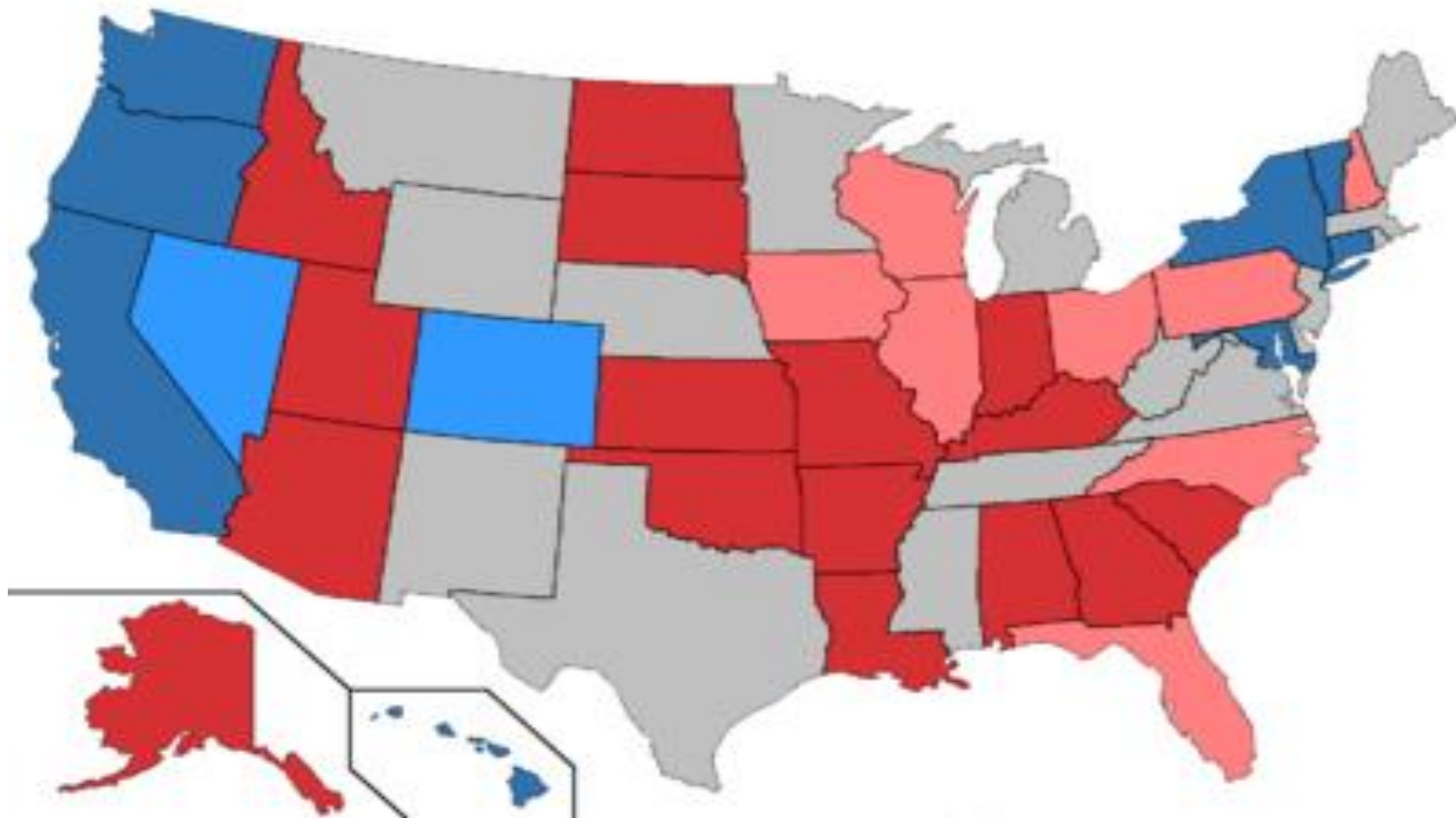
Regulations

- **EPA actions**
 - Lawmaker focus continues
 - Power of the purse
- **WOTUS**
 - Interpretive rule fate
 - Final rule looms large
- **RFS**
 - EPA policy inept
 - Key will be signals on future... whenever 2014 comes out

Other Issues

- **GMO labeling**
- **Beef checkoff**
- **Research funding**
- **SNAP – food stamps**
- **Child Nutrition Act** reauthorization in 2015
 - **FLOTUS** to play big role
- **Supreme Court: Vacancies?**

In 2016 At Least 34 Senate Seats Will Be Up for Election; 24 Republican and 10 Democratic



Democrat-favored seat (8)

Republican-favored seat (16)

Competitive Democrat-held seat (2)

Competitive Republican-held seat (8)

QUESTIONS

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