

USB Connections 2010

Freedom to Operate

Perspectives from Capitol Hill

Lance Kotschwar

Republican General Counsel

Senate Committee on Agriculture,

Nutrition & Forestry

Freedom to Operate

- Defining Modern Agricultural Production
- Sustainability
- Adoption of Biotechnology Advancements
- Implications of the 2012 Farm Bill and Increased Government Regulations

But First . . . A Quick Look Back

- Introduced in the U.S. in 1785
- Largely an industrial crop until after WW I
- Several Factors Contributed to Soybeans Graduating from 2nd Class Citizenship:

2nd Class Citizenship?

- The Agricultural Act of 1949 defined “basic agricultural commodities” to include cotton, rice, wheat, and feed grains (corn, oats, rye, barley and sorghum)
- soybeans (along with other minor oilseeds) were a “designated nonbasic agricultural commodity

Recent Farm Bill Treatment

- Since soybeans did not have any base acres, they were NOT originally part of the 1996 Farm Bill's direct payment formula.
- In 2002, Congress created base acres for oilseeds in order to equalize the treatment of soybeans for the direct and countercyclical payments.

A Quick Look Back – cont'd

- Other Factors That Contributed to Soybeans Success:





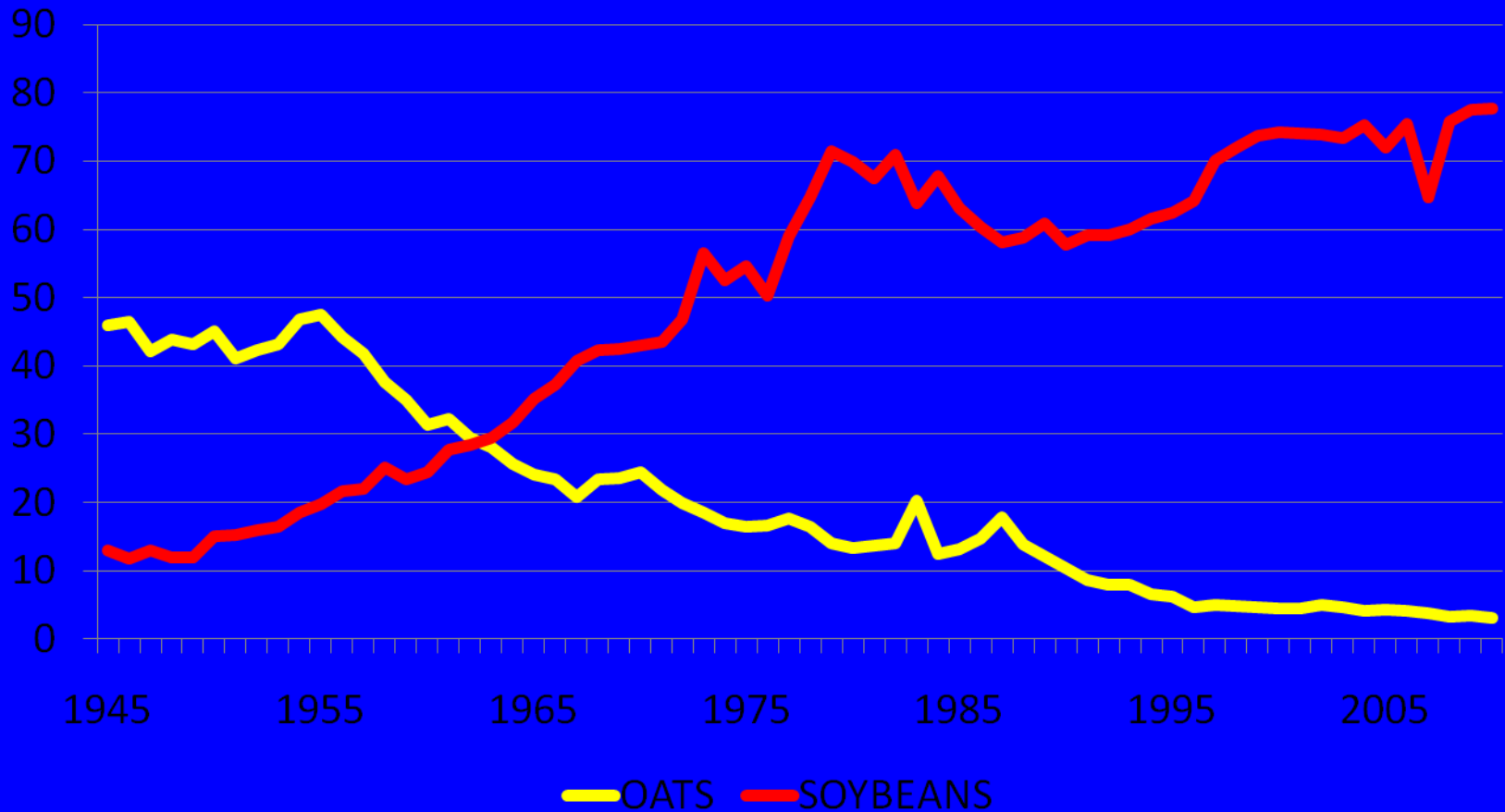


From the Collections of The Henry Ford

Image ID#: P.189.16351

Robert Boyer and Henry Ford with the Soybean Car.

Oh The Irony: Oats vs. Soybeans: Planted Acres: 1945-2010 (millions)



Implications of 2012 Farm Bill and Increased Government Regulation

- Approval of biotechnology events, including gaining domestic and international market access

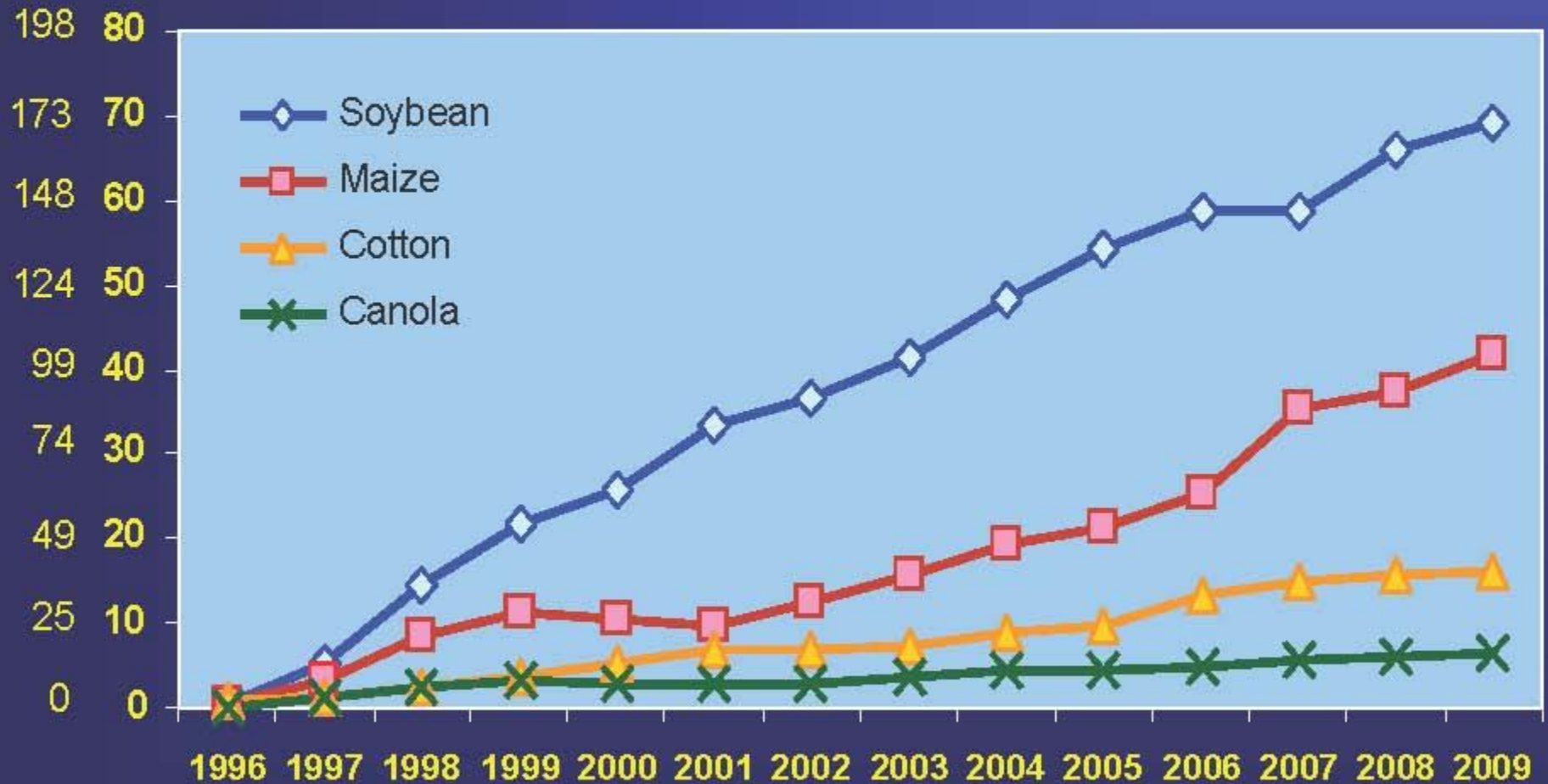
Biotech – 2 Steps forward?

- Recent headlines for biotech crops are not particularly encouraging for the short term.
- Both Domestically and Internationally, there are short term obstacles.
- However, NONE of the domestic litigation involving biotech crops has ever involved any safety issue; they only involve procedural issues.
- Similarly, international approval (EU) generally does not involve safety; just domestic politics.

Global Area of Biotech Crops, 1996 to 2009: By Crop (Million Hectares, Million Acres)



M Acres

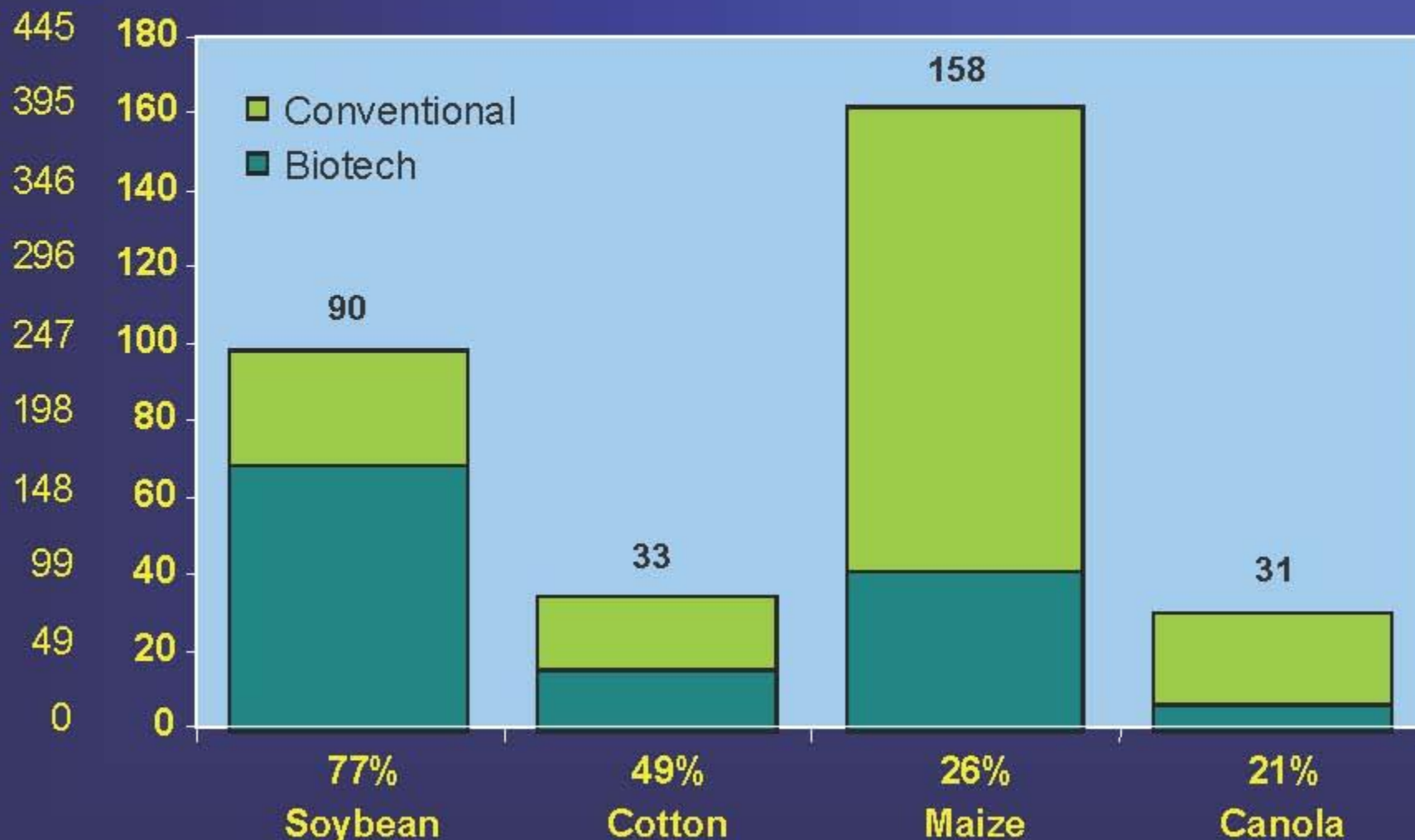


Source: Clive James, 2010

Global Adoption Rates (%) for Principal Biotech Crops (Million Hectares, Million Acres), 2009



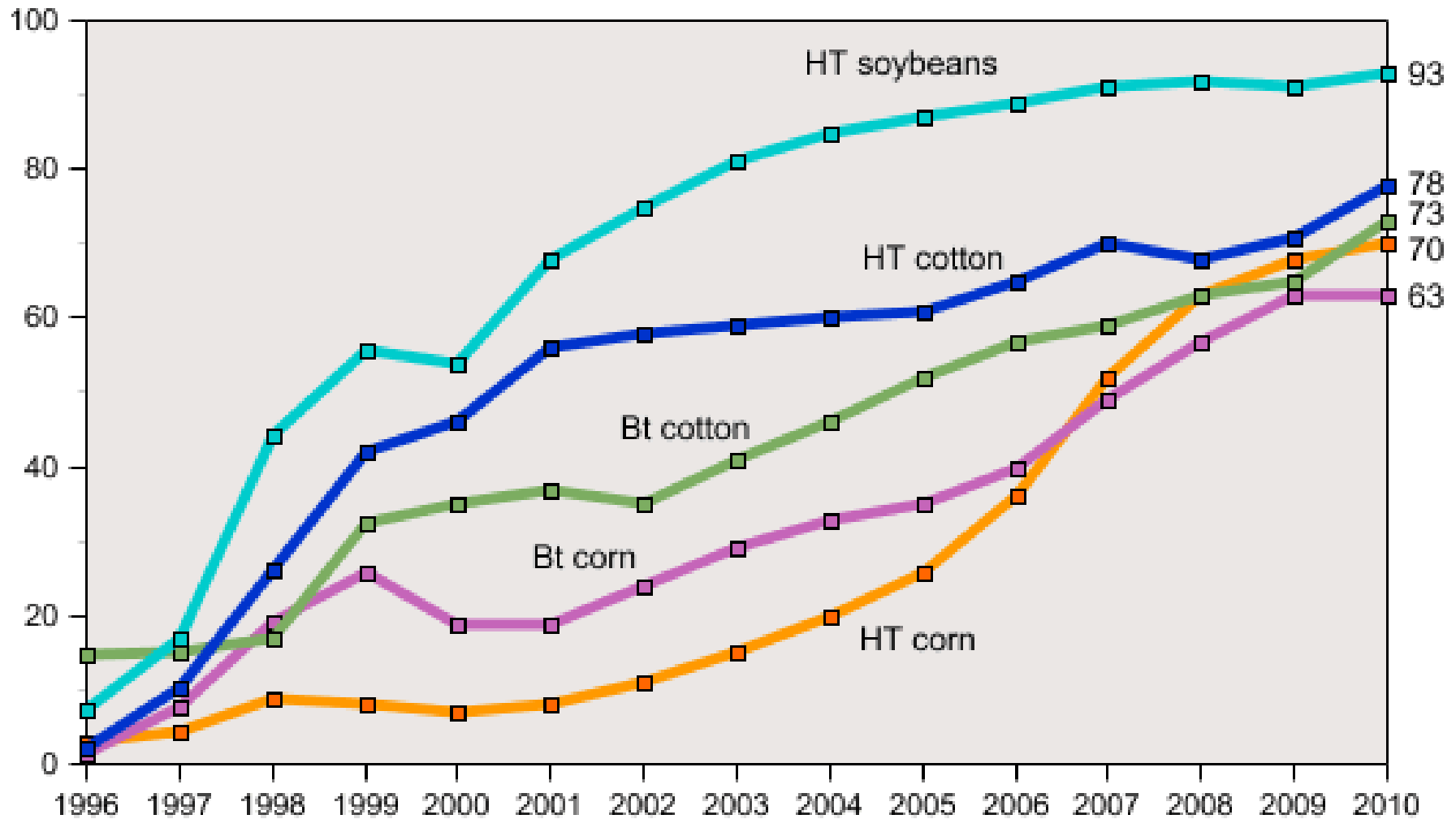
M Acres



Source: Clive James, 2010

Rapid growth in adoption of genetically engineered crops continues in the U.S.

Percent of acres



Data for each crop category include varieties with both HT and Bt (stacked) traits.

Sources: 1996-1999 data are from Fernandez-Cornejo and McBride (2002). Data for 2000-10 are available in the ERS data product, Adoption of Genetically Engineered Crops in the U.S., tables 1-3.

Implications of 2012 Farm Bill and Increased Government Regulation

- Restrictions on financial hedging tools from financial reform regulation

Financial Hedging Tools

- The Dodd-Frank Bill was signed into law last summer.
- The CFTC is in the midst of many rulemakings—several of which will impact the cost of risk management.
- Over the next several months as the comment periods, the CFTC will prepare final rules.

Implications of 2012 Farm Bill and Increased Government Regulation

- Changes to federal crop insurance programs

Crop Insurance

- Restating the Obvious: crop insurance is a valuable risk management tool for farmers and is generally viewed favorably by Congress.
- Congressional support partially stems from the shared nature of the program—i.e., producers have to bear a portion of the cost.

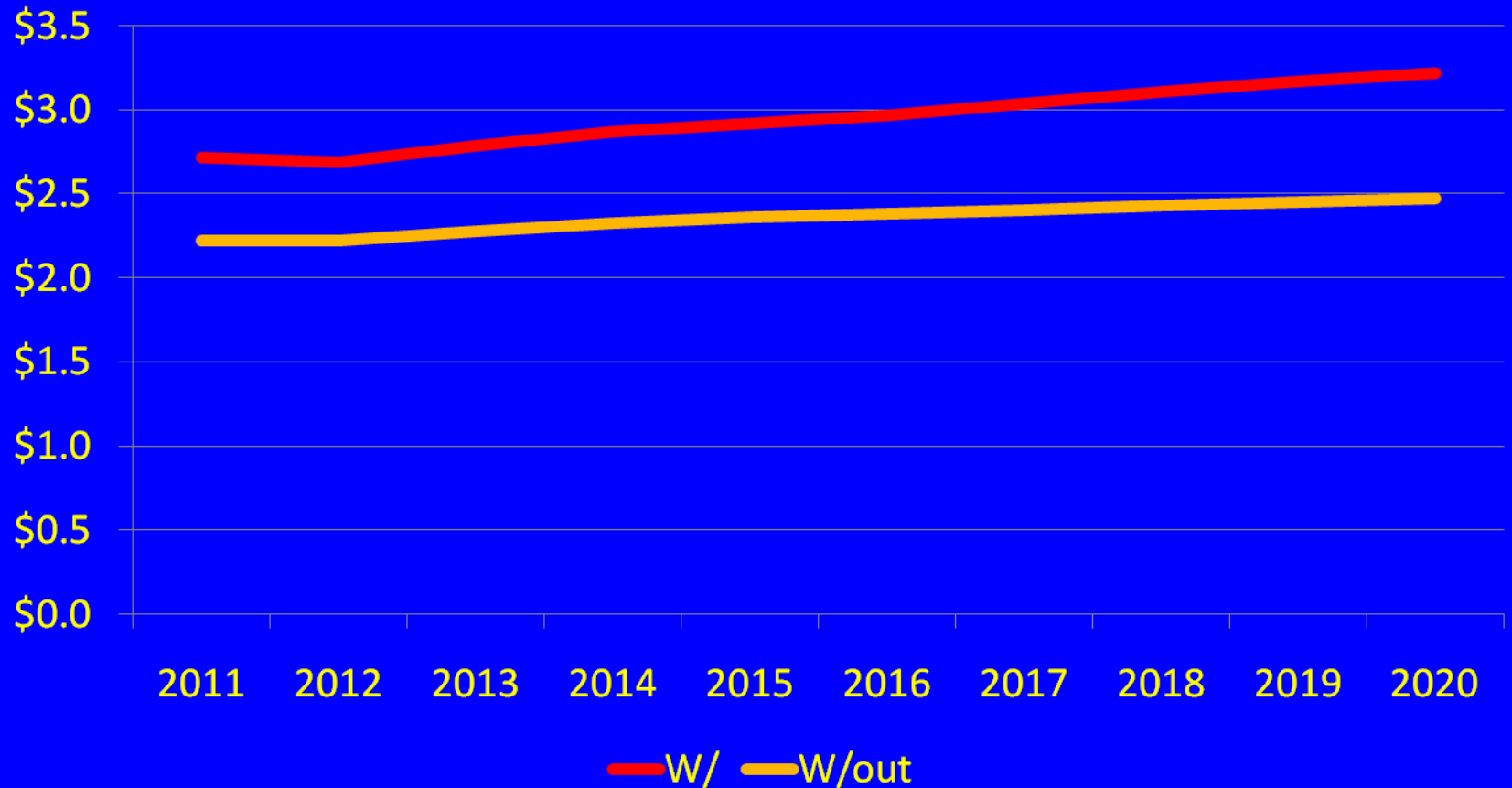
Crop Insurance – cont'd

- In recent years, crop insurance expenditures have exceeded commodity programs.
- Mainly accounted for by higher commodity prices, which raise crop insurance delivery costs and lower commodity program costs (no countercyclical payments or commodity loans)

Crop Insurance – cont'd

- During the last farm bill, most amendments were defeated, but reductions to certain crop insurance programs were made.
- The Budget Savings in USDA's recently-negotiated Standard Reinsurance Agreement will make finding further program savings in the next farm bill very challenging.

Crop Insurance – SRA Renegotiation (billions)



Implications of 2012 Farm Bill and Increased Government Regulation

- Tax changes to estate planning

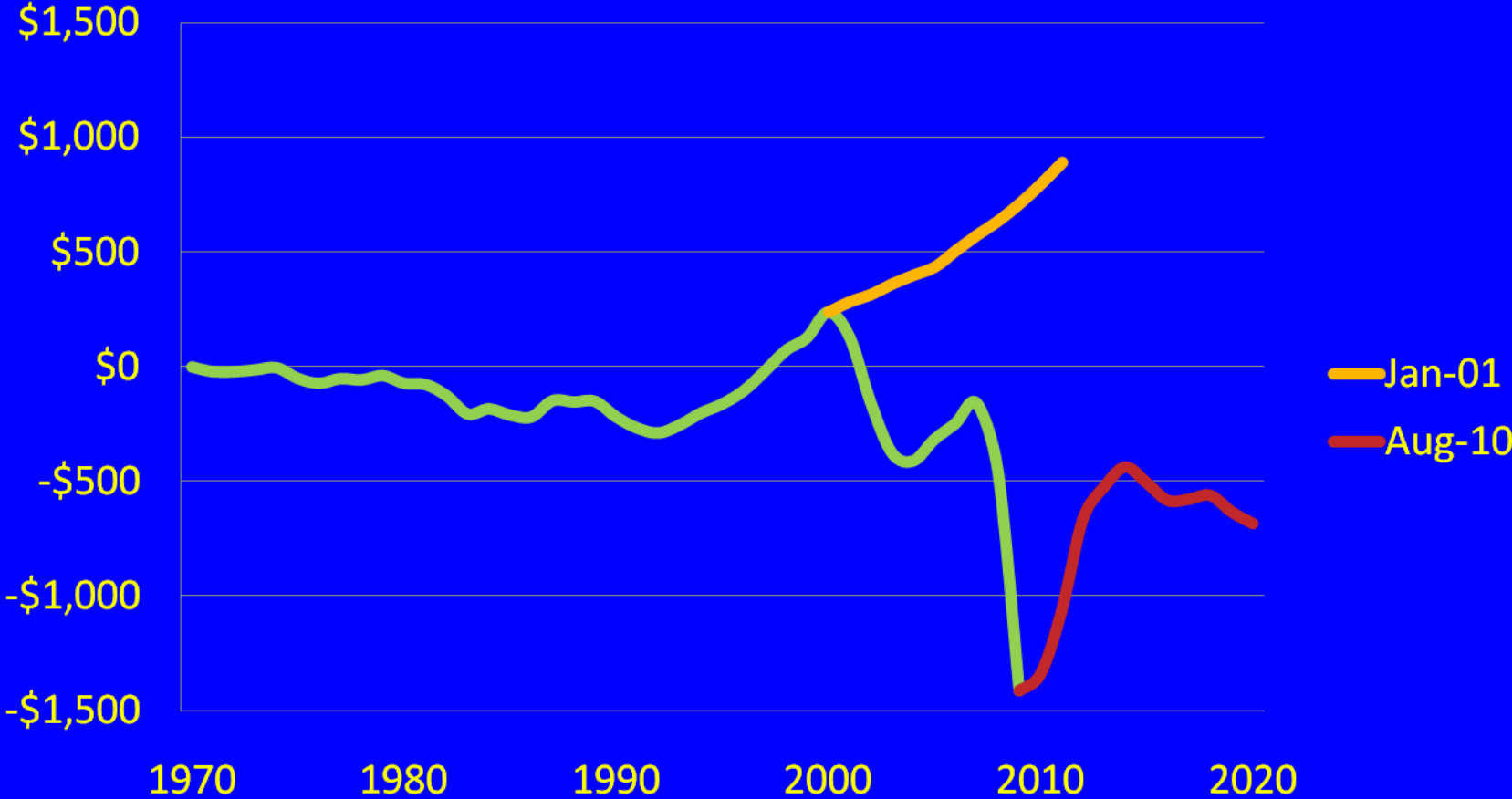
Tax Changes to Estate Planning

- Current and future composition of the Congress will make changes to the tax code hard to accomplish.
- As we are seeing with the current debate around extension of the the so-called “Bush Tax Cuts,” permanent changes to the tax code are much harder, both politically and fiscally.
- Look for temporary (1-2 year) extensions.

Sidebar for 2012 Farm Bill: The Budget

- Budget situation and outlook has always shaped farm policy.
- 1981-1997: budget deficits led to cuts in agriculture spending through deficit reduction legislation (AKA “budget reconciliation”), which occurred in FY ‘86, ‘87, ‘90, ‘94, ‘97.
- 1998-2001 surpluses: Congress used additional funding for emergency assistance and the crop insurance improvements in the Agricultural Risk Protection Act.
- 2001 projected 10-year federal surplus provided \$79 billion additional funding to write the 2002 farm bill.

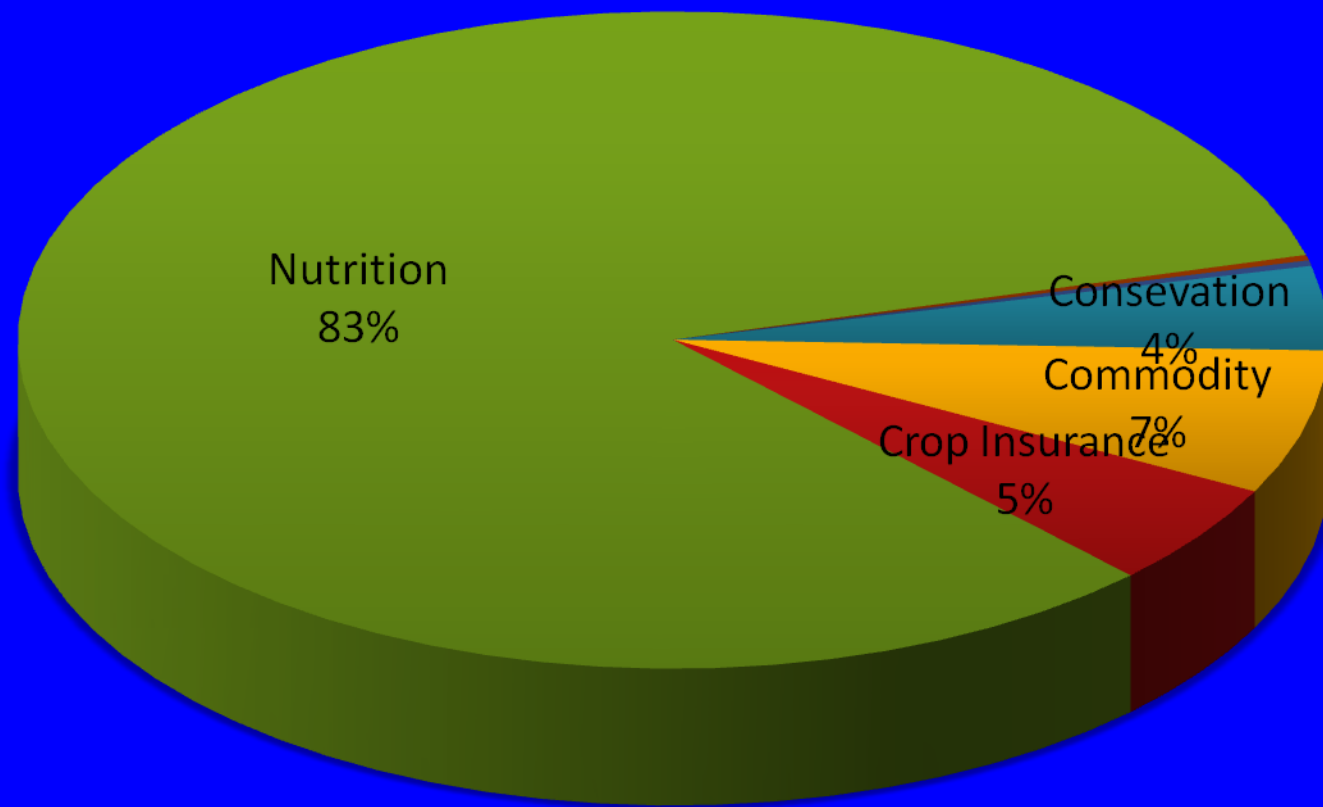
Federal Budget Surplus/Deficit Change in Budget Outlook (billions)



Agriculture as a Share of Federal Budget

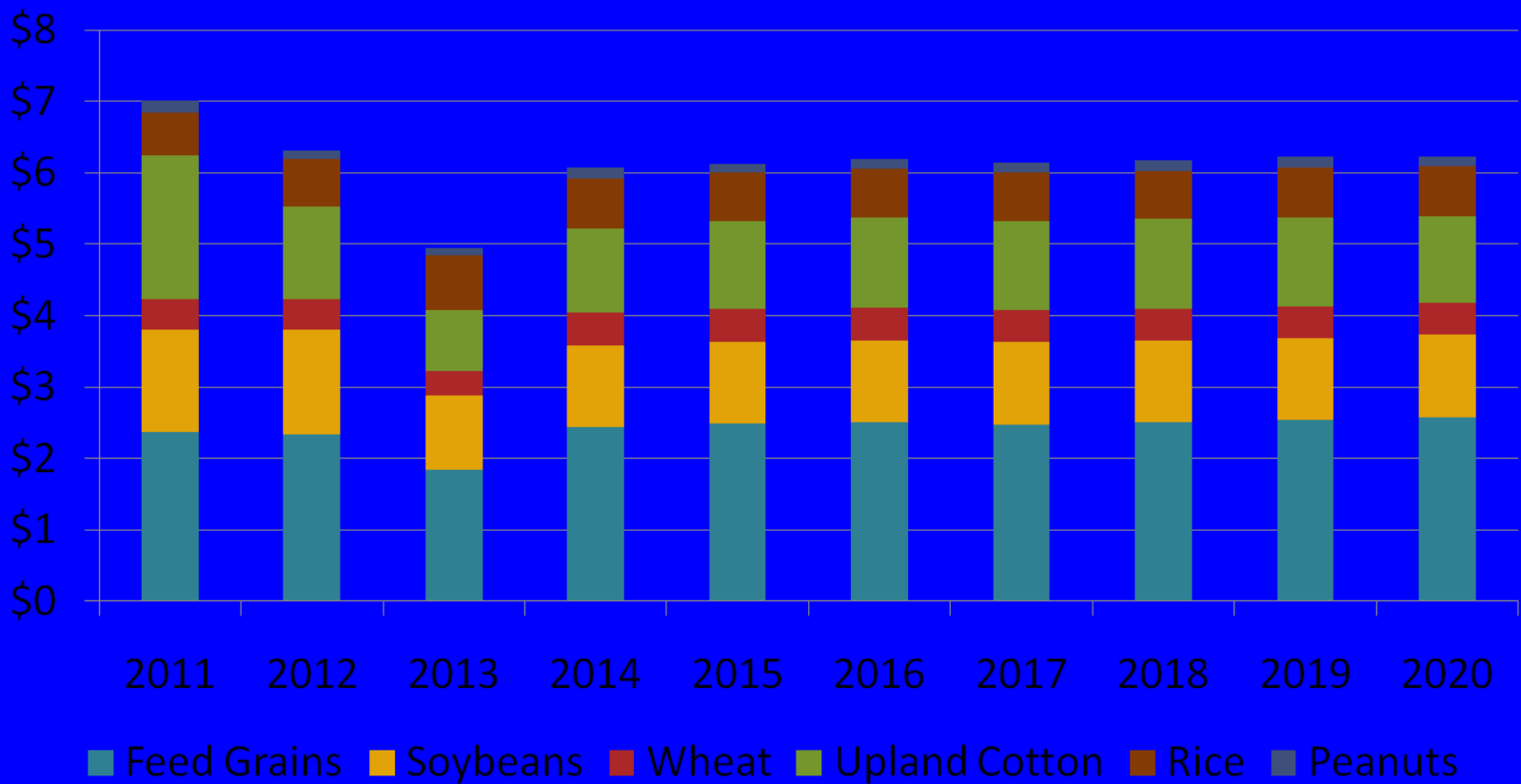
	5 Year 2011-2015	2 nd 5 Year 2016-2020	10 Year 2011-2020
CCC Outlays % of Budget	0.28%	0.21%	0.24%
CCC + Nutrition % of Budget	2.68%	2.01%	2.31%
Commodity Programs % of Budget	0.16%	0.14%	0.15%
CCC % of GDP	0.06%	0.05%	0.05%
CCC + Nutrition % of GDP	0.60%	0.45%	0.51%

FY 2010 Senate Agriculture Committee Baseline CBO August Baseline Update

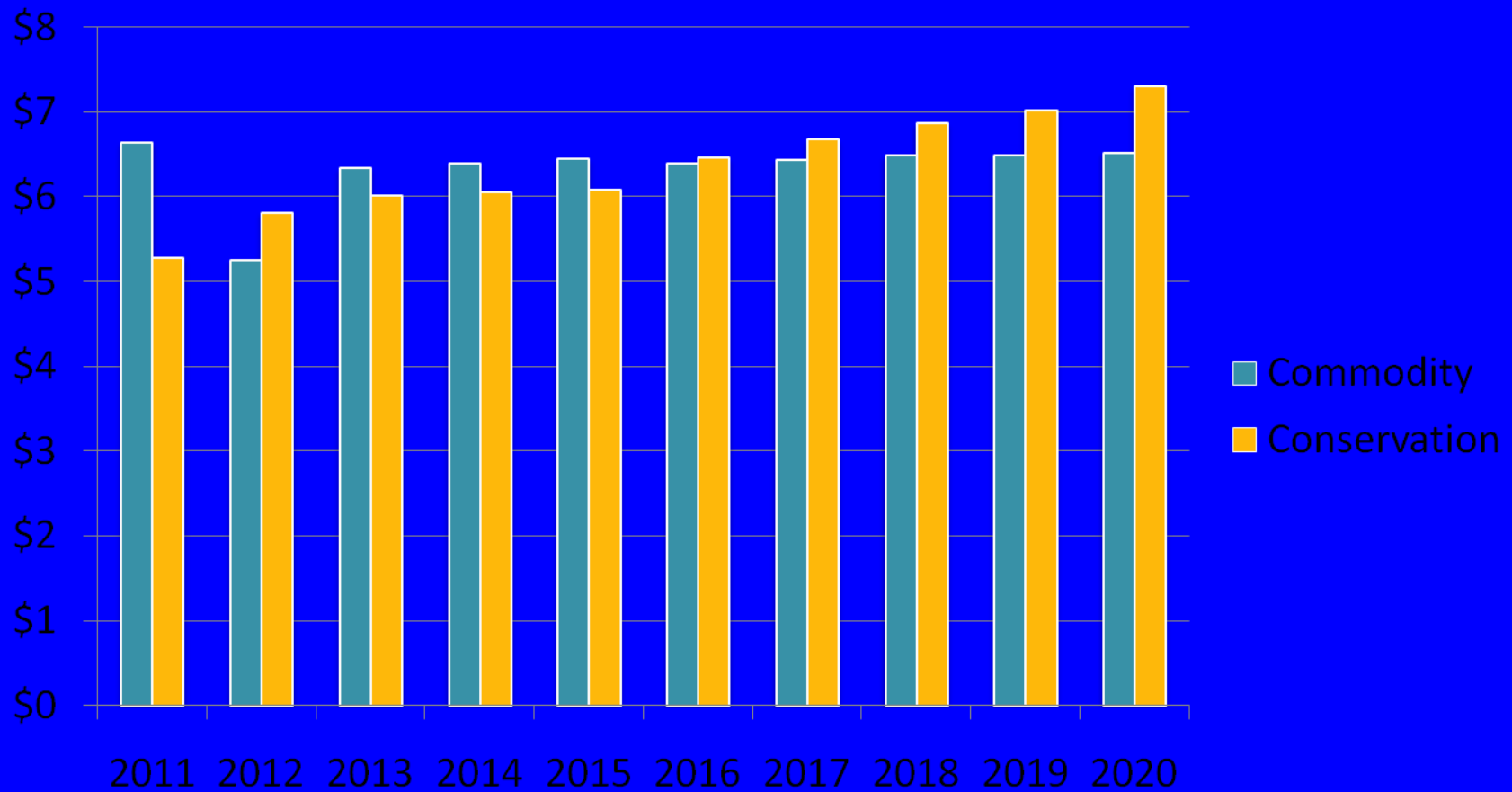


Senate Agriculture Committee Baseline by Crop

CBO August Baseline Update (billions)



Projected Commodity & Conservation Spending FY 2011-2020 (billions)



Prospects for Future Reconciliation

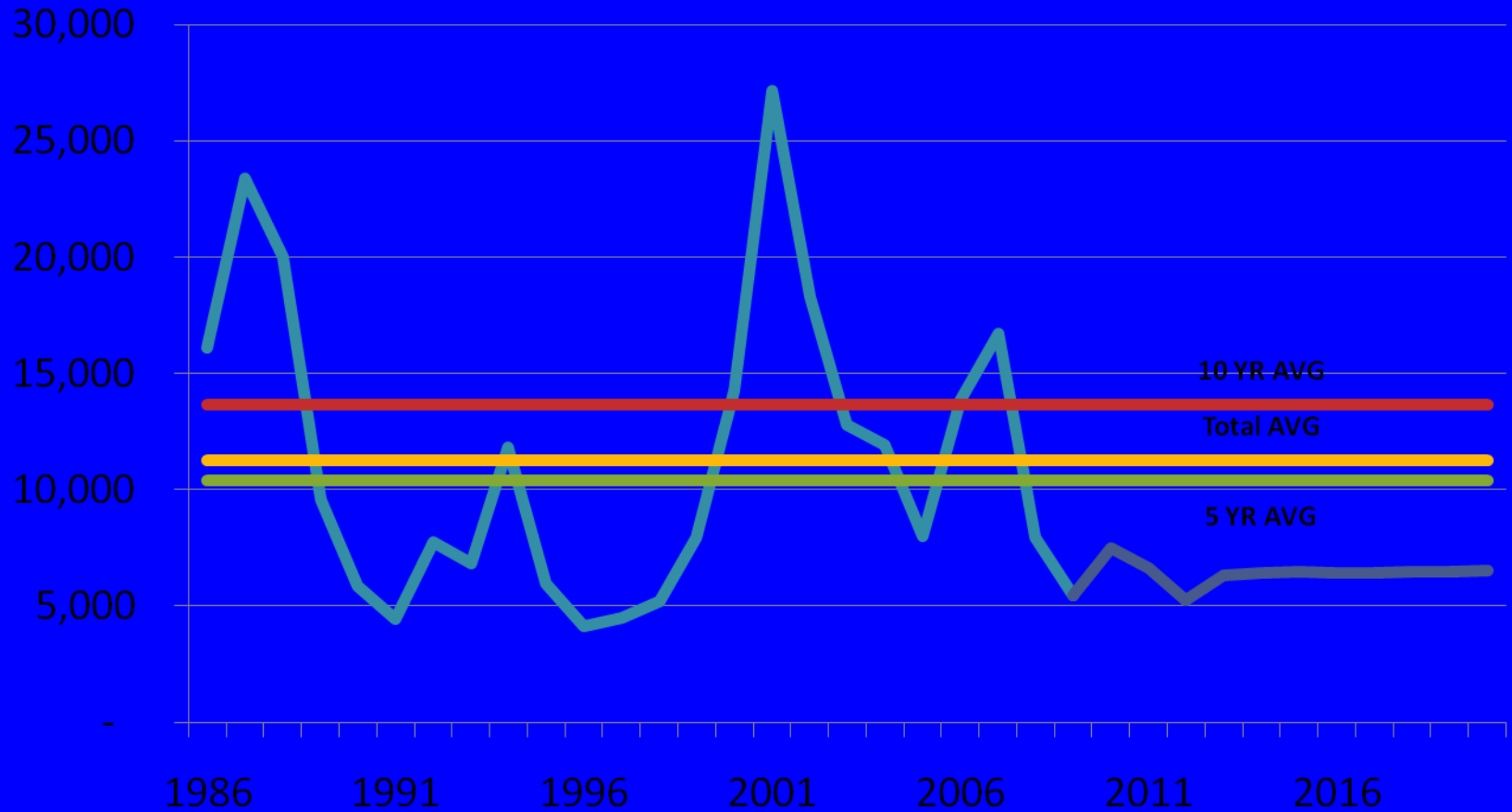
- With renewed focus on budget deficits and the debt held by the United States, agriculture spending will continue to be a target of critics for spending cuts.
- Pressure to reform farm programs is independent of the prospect of reconciliation.
- Reconciliation may or may not necessitate significant reforms in the structure of the safety net.

Farm Bill Spending Comparison

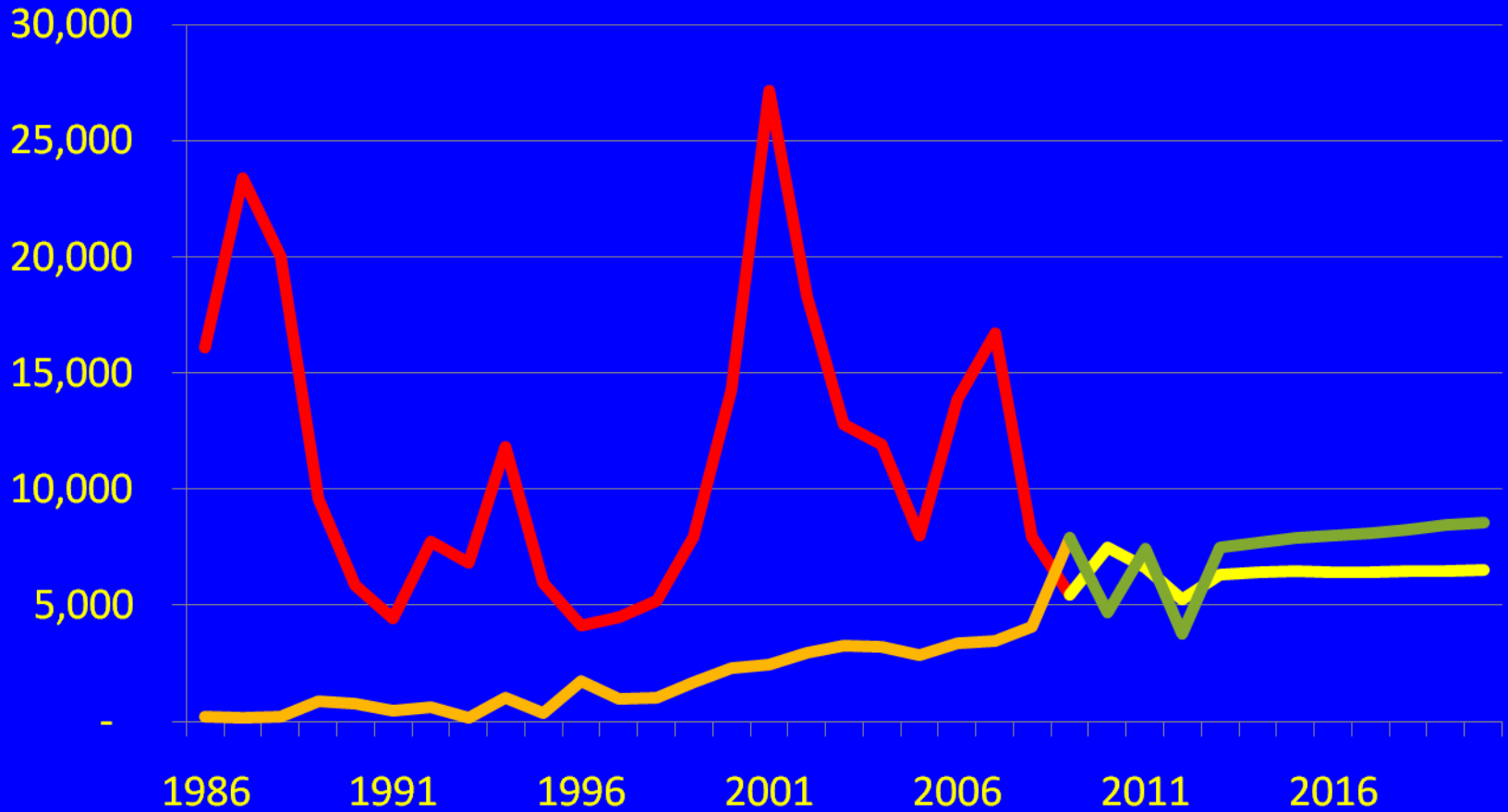
	Farm Bill 2011-2015	CBO August 2010 2011-2015	Difference
CCC - Total	\$61,073	\$52,444	-\$8,629
Commodity	\$45,674	\$36,797	-\$8,877
Conservation	\$29,700	\$29,263	-\$437
Crop Insurance	\$33,827	\$34,265	\$438
Energy	\$829	\$1,445	\$616
Export/Trade	\$1,775	\$1,763	-\$12
SNAP	\$199,394	\$365,988	\$166,594
Child Nutrition	\$84,493	\$93,079	\$8,586

Note: "Child Nutrition Program" totals in farm bill column are March 2007 CBO baseline estimates. SNAP total from final farm bill cost estimate. Other totals from the August 2008 CBO baseline update.

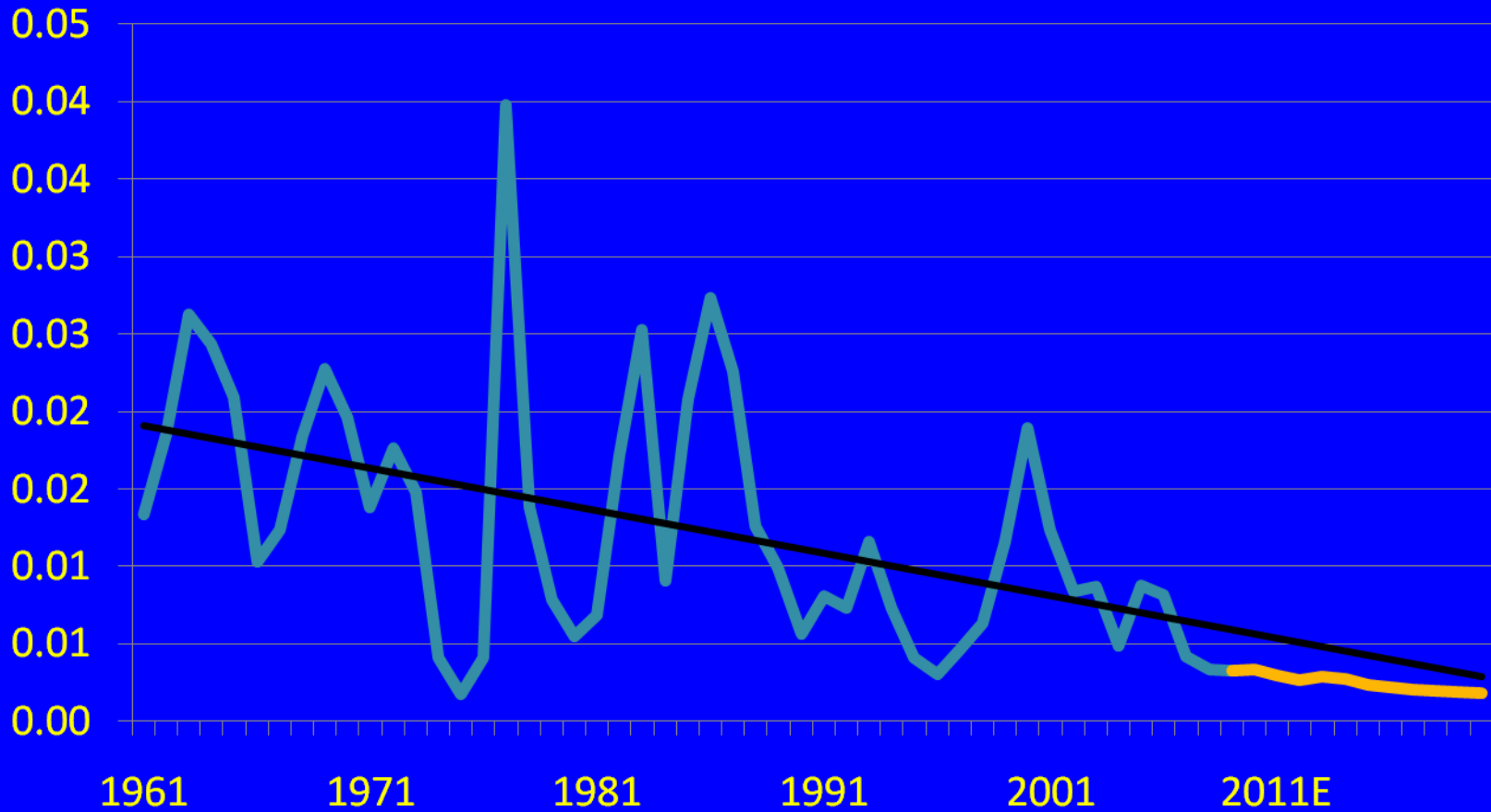
CCC Net Outlays by Commodity (\$ million)



Actual w/ Forecast CCC & FCIC Outlays (\$ million)



CCC as a % of the Federal Budget 1961-2020E



FARM BILL 101: FARM BILL BASICS

- Omnibus legislation
- A permanent law that is renewed every five to seven years.
- Covers a wide range of programs impacting agriculture and rural communities-- from commodity support to nutrition programs to agriculture research.

2012 Farm Bill

- 27+ programs authorized in the 2008 Farm Bill with mandatory funding exceeding \$9 billion expire in 2012.
- The largest programs are SURE (~\$5B) and the Wetland Reserve Program (~\$2.6B).
- Funding priorities outside of Title I will exert pressure on baseline.
- Reform of the farm safety will require significant resources (i.e. county based ACRE).

WHERE ARE WE? 2008 FARM BILL

- Most recent Farm Bill was enacted in June 2008. Succeeded 2002 Farm Bill.
- Contained 15 titles: commodity programs, conservation, trade, nutrition, credit, rural development, research, forestry, energy, horticulture and organic agriculture, livestock, crop insurance and disaster, commodity futures, miscellaneous provisions, and tax.
- Expires on September 30, 2012. Spends \$284 billion over the five years of authority.