2006 AGRICULTURAL ECONOMIC OUTLOOK AND U.S. TRADE AND AGRICULTURAL POLICY PROSPECTS

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Agriculture and Trade Policy: Review and Prospects

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Farm and Foreign
Agricultural Services
Agriculture and Trade Policy: Review and Prospects

- Introduction
- Agriculture Policy
- Trade Policy
- Market Maintenance
- Observations
Agriculture Policy Review

Farm Programs

2002 Farm Bill: Outlays ($bil)

- Direct payments $18.9
- Counter-cyclical payments 7.3
- LDP/MLG program 4.7
- Peanut Quota buyout 1.3
- MILC 2.0
- CRP 7.2
- Approaching $45 billion total

2 CRP signups held; 3rd signup this Spring
- 36 mil acres enrolled; rental payments $1.8 billion annually

Safety net in place to 2007
## Agriculture Policy Review

### 2004 Disaster Assistance Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop disaster assistance</td>
<td>$2,450</td>
</tr>
<tr>
<td>Livestock assistance</td>
<td>$0.266</td>
</tr>
<tr>
<td>American Indian Livestock Feed</td>
<td>$0.008</td>
</tr>
<tr>
<td>ECP</td>
<td>$0.050</td>
</tr>
<tr>
<td>Other (TAP, State grants, cottonseed, misc)</td>
<td>$0.100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,874 bil</strong></td>
</tr>
</tbody>
</table>

### 2005 Hurricane Assistance Programs

- $2.8 billion total - $1.2 for agricultural producers - $1.6 to restore homes, rural communities

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aquaculture, LIP, TIP, FIP, HIP</td>
<td>$250.0</td>
</tr>
<tr>
<td>Emergency Conservation program</td>
<td>199.8</td>
</tr>
<tr>
<td>Emergency Forestry CRP</td>
<td>404.1</td>
</tr>
<tr>
<td>Emergency Watershed Program</td>
<td>300.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,200 bil</strong></td>
</tr>
</tbody>
</table>
Agriculture Policy Review

Farm Policy Challenges

- Minimize WTO vulnerabilities
- Enhance responsiveness to market place signals
- Streamline program delivery and reduce complexity
Crop Insurance

- 2005: $44 bil liability - 246 mil insured acres
- Indemnities ($ bil):
  - 2003 - 3.3
  - 2004 - 3.2
  - 2005 - 2.5 (est)
- Providing expanding safety net to producers
  - Delivered through 16 private insurance companies
Agriculture Policy Review

Crop Insurance

- New/Revised programs
  - 2 new pilot pasture, rangeland and forage programs
  - Expanded pilot livestock programs - LGM Cattle and More States for LRP
  - New and revised Fruit Tree and Nursery programs

- Risk Management - Challenges
  - Implementation of new pasture, range and forage pilot programs
  - Achieve program efficiencies (e.g., “Combo” plan)
  - Maintain program integrity (data mining, etc.)
Agriculture Policy Review

- President’s FY2007 Budget Proposals
  - Budget and trade deficits adversely affect overall business environment - must be addressed sooner rather than later
  - Proposed savings reflect difficult choices - but place us on a path to halve deficit by 2009
  - Will work with Congress to achieve savings
Trade Policy Review

- USG strategy: “Competition for Liberalization”
  - Multilateral - WTO Doha Development Agenda
  - Regional FTAs
  - Bilateral FTAs
Free Trade Agreements

- **Completed:**
  - CAFTA-DR, Morocco, Australia, Chile, Singapore, Jordan, Bahrain, Peru, and Oman
    - Population: 111 million
    - Income today: $1.07 trillion - 3.6% long term growth
    - Current trade: $3.0 billion

- **In process:**
  - United Arab Emirates, Colombia, Ecuador, Panama, Thailand and Southern Africa Customs Union (SACU)
    - Population: 183 million
    - Income today: $627 billion, GDP long term growth 4.6%
    - Current trade: $2.1 billion

- **Planned:**
  - Korea announced on February 2
    - Population: 48 million
    - Income today: $1 trillion, GDP long term growth 4.9%
    - Current trade: $2.2 billion
Trade Policy Review

Multilateral - WTO/Doha

- Framework concluded: July 2004
- Hong Kong Ministerial benchmark: Dec. 2005
- DDA targets
  - Full modalities: April 30
  - Draft schedules: July 31
  - Round completed: December 2006
- TPA expires July 2007

2006 Busy Congressional Trade Year

- FTAs
- Preference extensions (GSP, ATPA)
- WTO accessions (Ukraine, Russia, Vietnam)
Trade Policy Review

U.S. Objectives/Ambitions Remain the Same

- Improve export competition through elimination of export subsidies
- Improved market access through substantial tariff reductions
- Substantial reduction in trade-distorting domestic support
U.S. Agricultural Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulk (Billions)</th>
<th>Intermediate (Billions)</th>
<th>Consumer Foods (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>'95</td>
<td>$62.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'96</td>
<td>$64.5</td>
<td></td>
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</tr>
</tbody>
</table>

- Bulk: $62.4 to $64.5
- Intermediate: Varied
- Consumer Foods: Varied
Market Maintenance

- Keeping markets open once access obtained - major ongoing function
  - SPS generally, biotech, TRQ administration, debarking, corn gluten feed
  - Currently BSE and AI
- Challenge: Adherence to international standards
- WTO rules-based system helps
Market Recovery
Market Access for Beef and Ruminant Products
(After 12/23/03)

- 2003 Export Value: $7.5 billion
- Initial Bans: $4.8 billion
- Not Banned: $2.7 billion

2003: Access $7.5 billion
Jan 04: Initial Bans $4.8 billion, Not Banned $2.7 billion
Today: Recovered $2.0 billion, Not Banned $2.7 billion

Japan and Korea: 82% of remaining $2.8 billion

Access | Recovered | Banned
Observations

- Farm Sector
  - Farm Bill effectively administered
  - Disaster Assistance - proceeding apace
  - Risk management tools improving
  - Farm economy prospects good

- Trade Prospects
  - Market opportunities improved - export prospects good
  - Trade liberalization - key to success
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