



Farm & Trade Policy:
How it will affect the US cattle industry

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Focus On The U.S. Economic Prospects

- Slow Growth With Headwinds
- 2014 “Organic Growth” Less Government
- Know the Rules / Not Like the Rules

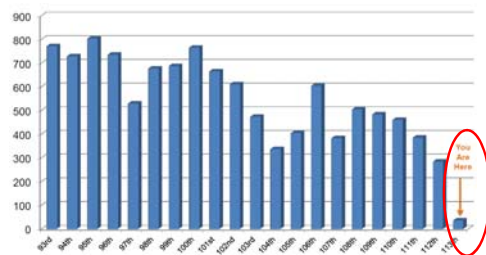
U.S. Macroeconomic Outlook

	2011	2012	2013	2014
Economy				
GDP (Ann. % Chg.)	1.8	2.8	1.8	2.8
Real Disposable Income (% Chg.)	2.4	2.0	0.7	3.1
Consumption (% Chg.)	2.5	2.2	1.9	2.6
Business Fixed Investment (% Chg.)	7.6	7.3	3.1	7.1
Net Exports (Bil. \$)	-446	-431	-422	-434
Inventory Investment (Bil. \$)	33.6	57.6	45.2	37.5
Industrial Production (% Chg.)	3.4	3.6	2.2	2.9
Fed. Budget Surplus (Bil. \$)	-1299	-1089	-679	-607

Could Washington Be More Dysfunctional?

- **Obama: Second term woes**
 - ◆ Healthcare reform timeline slips – Election-year angle
 - ◆ Intelligence snafu: A sense that U.S. is losing clout
 - ◆ Executive orders: Climate change, other issues
 - ◆ Regulations: A growing backlog at OMB
 - ◆ Farm Bill: Discord between farm groups, lawmakers, Obama
 - ◆ Foreign policy issues: Egypt – Syria – Iran – North Korea

113th Congress: Historically Few Enacted Laws



Source: Cook Political Report.

Could Washington Be More Dysfunctional?

- **Budget: Compromises needed**
 - ◆ Debt limit hike... until Feb. 7, 2014
 - ◆ FY 2014 spending...the ‘CR’...until Jan. 15, 2014
 - ◆ Budget agreement goal: Dec. 13, 2013
 - ◆ Sequestration issues
 - ◆ Tax extenders, tax reform

Could Washington Be More Dysfunctional?

- **Immigration reform:** Some bipartisanship, but...
 - ◆ Obama legacy or 2014 election issue?
 - ◆ Senate passes | House bill *will* be different
 - ◆ Ag/seasonal workers accord



Immigration Reform

- **Four Issues:**
 - Border security
 - E-Verify
 - Seasonal workers (ag) / skilled workers
 - Path to earned legalization
- **Senate:** Comprehensive bill passed in June – 68 to 32
- **House:** Piecemeal reform
- **Outcome:** Comprehensive bill unlikely before 2014 election

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Renewable Fuel Standard

Key Challenges:

- Ethanol Mandate 
- CAFE Standards 
- Passenger Vehicle Miles 
- Blend Wall – frozen
 - E-10

Corn Ethanol Mandate

2013: 13.8 billion gallons

2014: 14.4 billion gallons

2015: 15 billion gallons

Biodiesel Mandate

2012: 1 billion gallons

2013: 1.28 billion gallons

2014: 1.7 billion gallons

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Biofuels...Policy Issues

- **RFS for 2013: EPA forced to make adjustments**
 - ◆ EPA alters volume requirement for cellulosic
 - ◆ Extends RFS compliance four months, thru June 2014
 - ◆ Biodiesel unchanged.... Another tax incentive extension?
- **RFS for 2014: Changes to address 'blend wall'**
 - ◆ Corn based ethanol of 12.7 bil. to 13.2 bil. gallons
 - ◆ Final rule seen in 1st quarter 2014 to as late as June
 - ◆ Compliance deadline?
 - ◆ Stabenow wants CFTC to probe RINs

Biofuels: Legislation?

- **House:**
 - ◆ Hearings on RFS, blend wall, etc. held
 - ◆ White papers issued
 - ◆ Key lawmakers signal no legislation, awaiting final EPA plan
 - ◆ Cantor push to add language to CR, other bill
- **Senate:**
 - ◆ A more go-slow approach
 - ◆ No legislation likely this year

Trade Policy Issues

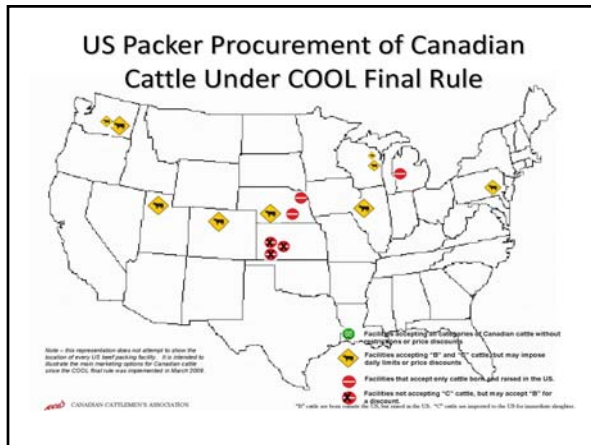
- **FTA proposals** – EU, TPP
- **Fast-track** trade negotiating authority: yes, but... TAA issue
- **Brazil cotton case:** Officials talking
- **COOL:** WTO ruling awaited – Canada and Mexico response
- **Changing farm exports:** Growth in developing countries
- **Non-tariff trade barriers:** Impacting U.S. meat exports
- **Key question:** Does U.S. have right strategy?

Trade Policy Changes Needed

- **USDA Undersecretary for Trade:** Will likely be in farm bill
 - ◆ **1978:** Last time ag trade reorganized, \$29 bil. exports
 - ↳ **2013:** Exports now at \$135-\$140 billion
 - ◆ **1978:** 60% exports were bulk
 - ↳ **2013:** Big increase in value-added, meat exports
 - ◆ **From tariff to non-tariff barrier issues**
 - ◆ **FSIS, AMS, FAS trade roles** to new post

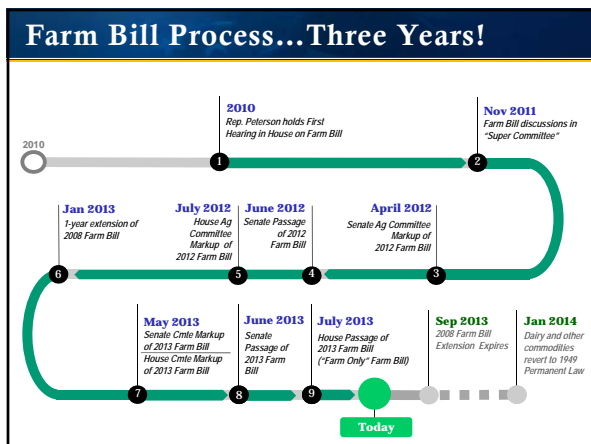
Country of Origin Labeling - COOL

- **May 23 final rule:** Enforcement started.
- **WTO panel to examine May 23 final rule:** Same panel as made initial determination that US law violated WTO commitments. 2014 determination.
- **Canada releases retaliation list:** Mexico has list, but hasn't finalized or published.
- **Farm bill option:** Placeholder now less likely to mean repeal but possible option is a North American label.
- **USDA's Vilsack:** Let the WTO process run its course.



Will We Ever Get a Farm Bill?

- ➔ *Farm Bill Process*
- ➔ *2013 Farm Bill Details*
- ➔ *Path Forward*



Farm Policy

Guiding principles...

- ➔ *Farm policy must work for all crops and all regions of the country.*
- ➔ *Farm policy must be able to protect against multi-year deep price declines like we saw in the late 1990s.*
- ➔ *Do no harm to crop insurance and make improvements where possible.*

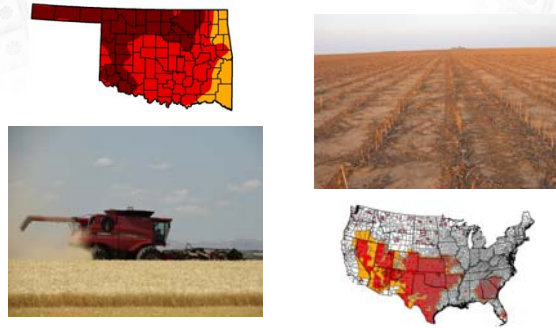
Commodity Policy

Other issues beyond farmer safety net:

- *Supplemental Revenue Assistance Payments (SURE) program was not continued (neither House nor Senate).*
- *Permanent Law: Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 are replaced as permanent law by Title 1 in HR 2642.*

Crop Insurance

DO NO HARM TO CROP INSURANCE



Potential Changes: Crop Insurance

- Reducing premiums
- Ending or curbing use of harvest price option
- Reducing crop revenue coverage options
- Limit practice of dividing a farm's coverage into separate units
- Surcharge on high-risk coverage
- Reducing subsidies for high-grossing farms

Livestock Policy

Livestock Disaster Assistance...


- *Both the House and Senate Farm Bills reauthorize and fully fund livestock disaster assistance provided in the 2008 Farm Bill, providing coverage retroactively to 2012.*
- *Livestock Indemnity Program: The House provides indemnity payments at 75% of the market value of livestock. The Senate provides indemnity payments at 65% of the market value of livestock.*
- *Livestock Forage Program: The House maintains current law while increasing the payment rate. The Senate combines ELAP forage assistance and NAP. The Senate also lowers the payment rate to 50% of monthly feed costs and limits the grazing period to 240 days per year.*

Path Forward

Farm Bill Path Forward

Factors Impacting Farm Bill Completion...

- *Conference underway*
- *Principals to meet again this week*
- *Sen. Stabenow stance*
- *Deficit Reduction/Fiscal Cliff Talks.*
- *Most focused on finishing a Farm Bill this year.*



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
- **Corn ethanol blend wall:** Will exports take up the slack?
- **Increased yields:** 'Normal' weather eventually, and...
- **Lower prices:** How low depends on carryover buildups
- **Barometers:** Watch farm equipment and land values

Outlook for elections

- **2014 Congress**
 - House: GOP likely will retain control
 - Senate: Key is candidates
- **2016 President**
 - Democratic candidate
 - Republican candidate

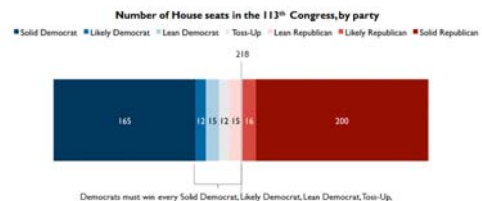
2014: The House



Today: 234 Republicans, 201 Democrats (Democrats need +17 seats to win control)

Cook Outlook: Minimal Net Change

Terrain: House Democrats Would Need to Win GOP-Leaning Territory to Get to 218 Seats



- ❖ **Few Realistic Republican Targets:** There are only 5 GOP members left from Democratic-leaning seats
- ❖ **After 2012 Gains, More Democrats Exposed:** There are 18 Democrats left in GOP-leaning seats.

Source: Cook Political Report.

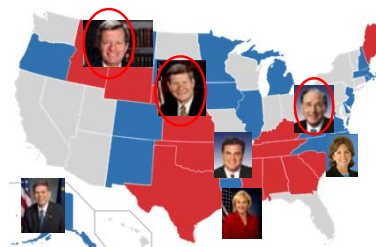
2014: The Senate



Today: 55 Democrats (including 2 Independents caucusing with Democrats), 45 Republicans

Cook Outlook: GOP gain of 4-6 seats. Senate control in 2015 is a Toss Up.

Democrats Must Defend 7 Seats in States Romney Won:



- ❖ Retirements in MT (Baucus), SD (Johnson), WV (Rockefeller)
- ❖ Incumbents: Begich (AK), Pryor (AR), Landrieu (LA), Hagan (NC)

Source: Cook Political Report.

Just As in the House, Democrats Have Few “Real” Opportunities to Play Offense



❖ Question is, will GOP primary voters “blow it” like they did in 2012? Look to Georgia, not Kentucky, for clues.



Source: Cook Political Report.

No RNC “Outreach” Programs Will Fix GOP’s Problems. Only a New Nominee in 2016 Can.



❖ The “Can Wins” (Rubio, Christie, Bush)



❖ The “Can’t Wins” (Cruz, Paul, Santorum)



❖ The “Maybes” (Walker, Ryan, Jindal)



Source: Cook Political Report.

Thank You!