

*COOL and Policy Issues affecting
the U.S. Cattle Industry*

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Country of Origin Labeling

- **Part of 2002 Farm Bill**
- **Beef, Pork and Lamb**
 - **Muscle meat**
 - **Ground meat**
- **Other items not of concern to us**
- **Excludes traceability of animal to farm of origin**

Country of Origin Labeling

- **“United States country of origin” label can be used only if product is from an animal that was**
 - **Exclusively born,**
 - **Raised, and**
 - **Slaughtered in the U.S.**

Country of Origin Labeling

- **Possible implementation mechanisms**
 - **Third party verification**
 - **Significant paperwork**
 - **Self-verification at each step**
 - **Similar to income tax**
 - **Presumption of U.S. origin rule**
 - **Most imported animals already identified**
 - **Little additional paperwork**

Country of Origin Labeling

- **Benefits of COOL**
 - **Increases transparency between buyer and seller**
 - **Buyer can make an informed decision**
 - **U.S. beef may command higher price**
 - **Would have identified non-U.S. beef after Canadian BSE incident**

Historically—there have been Two Major Components of Farm Commodity Policy

- **Policy of Plenty:** Ongoing public support to expand agricultural productive capacity through research, extension and other means
- **Policy to Manage Plenty:** Mechanisms to manage productive capacity and to compensate farmers for consumers' accrued benefits of productivity gains

Nature of Crop Markets

- Technology expands output faster than population and exports expand demand
- Market failure: lower prices do not solve the problem
- No self-correction on the demand side
 - People will pay almost anything when food is short
 - Low prices do not induce people to eat more
- No self-correction on the supply side
 - Farmers tend to produce on all their acreage
 - Few alternate uses for most cropland

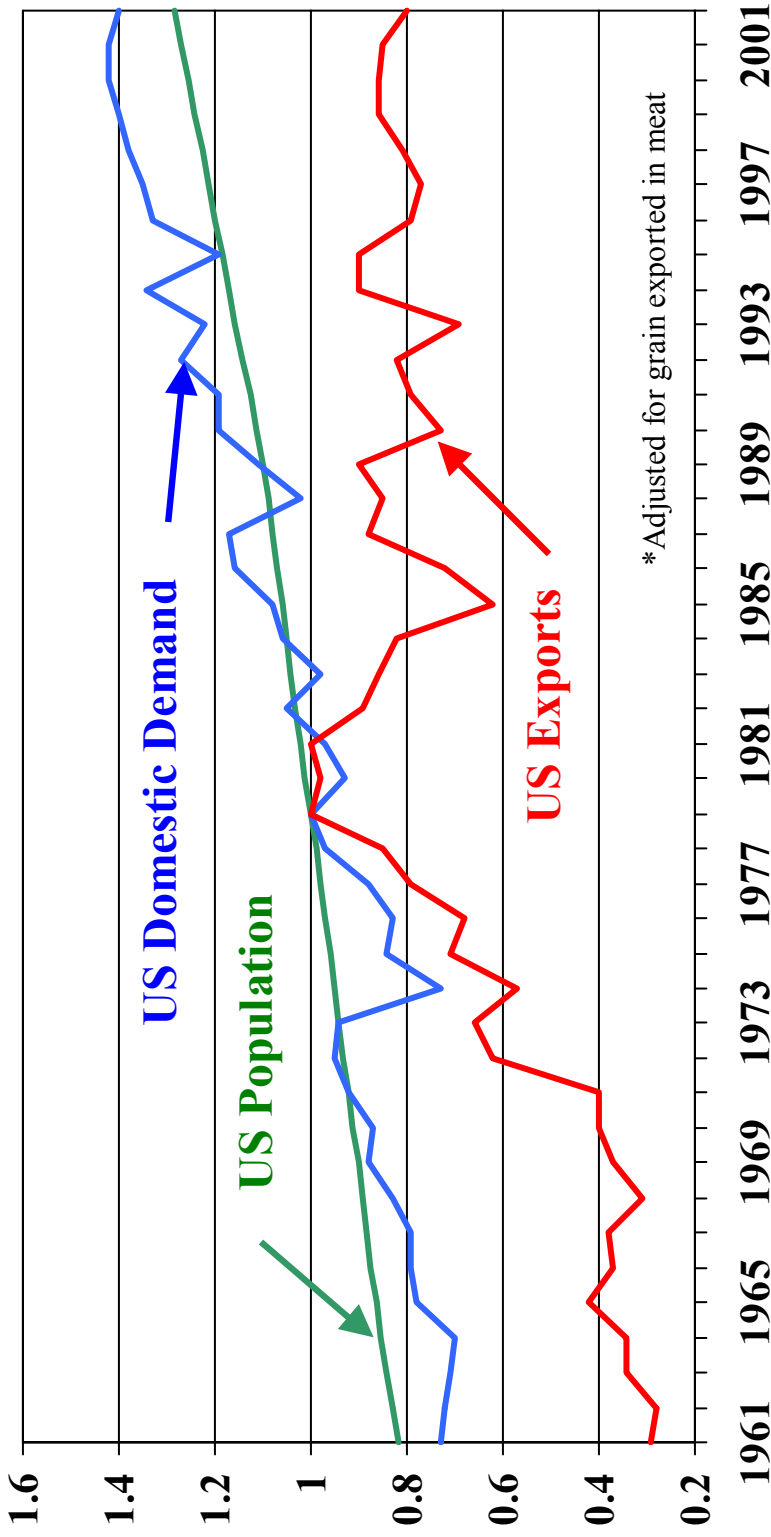
Traditional Policy Levers

- **Government Stock Management**
 - Loan rate/support price to set a floor price.
 - Limit price increases by Gov't & FOR released stocks
- **Restrict supply**
 - Short-term set-aside
 - Long-term Conservation Reserve Programs
- **Expand demand**
 - Domestic
 - Foreign
- **Government payments**
 - Coupled to production
 - Decoupled

Points to Ponder

- Since 1985 farm policy has been driven by:
 - Exports, exports, exports (Those are OUR exports! And we'll do ANYTHING to get them back and to make them grow.)
 - Agribusinesses' lobbying ability (We MUST lower prices and maximize output. "If we build it, they will come.")
- Exports have not delivered after two decades of promises

Exports Did Not Deliver



Index of US Population, US Demand* for 8 Crops and US Exports* of 8 Crops 1979=100

- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have NOT been the driving force in US crop markets

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- Exports have not delivered after two decades of promises
- **Agribusiness got everything they wanted (except elimination of the CRP)**
 - No bottoms or tops on prices (Increases the value of superior information.)
 - Elimination of annual acreage reduction programs (Volume is everything.)
- **Farmers relinquished the farm policy agenda to agribusiness and those that believe agriculture will self-correct with unfettered free markets**

Recent Policy Choices

- 1996 & 2002 Farm Bills failed to recognize that:
 - Timely self-correction does not take place in agriculture
 - Aggregate demand of major crops responds very little to price
 - Aggregate supply of major crops responds very little to price
 - Crop exports are NOT going to provide the ever-increasing rate of growth agriculture needs to be prosperous on its own
- The policy choice was to:
 - reject these realities
 - allow prices to plummet
 - write very large checks to cover losses; which, in turn, has raised all kinds of distributional issues including the possibility of payment limitations

Premises for Developing Policy

- U.S. and world output will continue to outpace demand
- Aggregate crop agriculture does not self-correct on its own in a timely manner (assuming otherwise is denying the obvious)
 - Total acreage changes too slowly to be of help
 - Consumers will never oscillate between 1 and 5 meals a day depending on prices
- **Exports**
 - Competitors are as committed to producing for international markets as we are
 - Import customers view food as a national security issue and abhor increased dependence

What Have We Learned?

- Farmers have been sold a bill of goods on the elimination of acreage reduction programs
 - Trends in competitors' acreage and production were unaffected by U.S. elimination of set aside
 - Elimination of set-aside was good for agribusiness but not good for farmers' market income
 - EVERY other non-farm industry watches demand when deciding output levels
- Storage programs weren't as expensive as we thought (millions compared to billions)

Possible Long-Term Directions

- Stay the Course
- Intensify the Free Market Prescription
- A More Managed Prescription

A More “Managed”

Alternative means of managing crop production could be considered

- Inventory Reserves
- Adding to existing CRP acreage
- Creating a shorter-term CRP-like program
- Reinstating:
 - Annual Set-asides
 - Inventory/price support programs
- Energy crops – Could be a win-win-win

Furthermore...

Excess capacity will become a global problem in the future

- Significant additional productive capacity is being brought online in several countries around the world
- Technological advances now increase yields worldwide
- May be politically impossible for a nation to do unilaterally

Challenges of the Day

- U.S. budget deficit
 - Payment limitations
 - Reduce all farm payment outlays
- Free trade challenges
 - Call for end of subsidies
 - Grain and livestock issues

Free Trade Challenges

- Call for end of subsidies
 - WTO, Free Trade Area of Americas, G20, and G90
- Grain trade
 - Imports – Wilmington Bulk
 - China
 - Corn export competitor
 - Soybean self-sufficiency
 - Brazil
 - Low land costs
 - 400 million acres available for crop production

Free Trade Challenges

- Livestock trade
 - Brazil
 - Meats
 - Poultry, Pork, Beef –particularly box beef
 - With frost free areas include winter pasturage in crop rotation regimen
 - Switch exports
 - from high-bulk/low-value seeds
 - to low-bulk/high value meats

Weekly Policy Column

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needy children and spouses of victims of the Sept. 11 terrorist attacks.

Senate ag committee resists pressure to adopt House Farm Bill

The House of Representatives adopted the Farm Security Act of 2001 on Friday, Oct. 5, by a vote of 291-120. The approval came after representatives rejected a flurry of amendments including the Boehlert-Kind amendment to shift \$19 billion dollars from commodity programs to conservation programs, and one to limit payments to \$150,000-per-person on all crop based subsidies.

With the adoption of this farm bill legislation by the House, attention shifts to the Senate Ag Committee. This committee is being pressured to use the House bill as its base document, but some believe it is necessary. The pressure comes from those who believe that the agricultural community needs to grab the additional \$73.5 billion above the baseline that was made available in the 2001 budget resolution.

However, the authorizing budget resolution says these additional monies would be available only if the budget projections did not require dipping into the Medicare or Social Security Trust Funds. By early September, the slowdown of the economy and the tax cut had significantly reduced the surplus to what some were projecting to be a razor thin margin. In the event of the "lock box" scenario, it would mean a moment's consideration as \$40 billion was granted to New York for damage caused by the terrorists and for fighting the war on terrorism. Congress then voted \$15 billion to bail out the airline industry. Billions more undoubtedly will be needed to execute the war against terrorism. And, the administration is talking about an additional economic stimulus package that could be as large as \$100 billion. Undoubtedly the lid of the lock box will be wide open when all is said and done.

All of this spending leaves agriculture's additional \$73.5 billion in question. It would appear that the thinking in the House is that agriculture better make its claim as quickly as possible before the lock box is closed again or a cap is put on the deficit. Judging

LMA President Patrick Goggins said, "All across America, in 43 states, our member businesses do

from statements by Sen. Richard Lugar, the leadership of the Senate. Ag Committee sees things quite differently. As a result, the Senate committee leadership, while it is under pressure from commodity groups to adopt the House bill, does not think that the committee has to rush its work on the farm bill. They don't feel the necessity to rush because they don't think the financial issues will be any different five months from now than they will be four weeks from now.

They are continuing on the course they set before the Sept. 11 attacks on the World Trade Center and the Pentagon. From all accounts, the farm bill that the Senate is working on will have many provisions that look quite different from the House bill.

Intertwined in all of the discussion and action are a number of major questions that will have to be answered before a final version of the farm bill is approved.

- Will the budget for agriculture be the \$96.5 billion baseline or will it be \$170 billion, including the additional \$73.5 billion conditionally authorized in the budget resolution?
- \$150,000 proposal that was rejected by the House?
- How widely will the payments under the farm bill be distributed? Will they be concentrated in the heartland or will the coasts see a larger portion of the money than in the past?
- Closely tied to the previous two questions is the role conservation will play in the farm bill. Will conservation be tied to cropland related programs or will it be a green payment program that will encourage conservation in all regions of the country and on all sizes of farms?

Yes, a House bill has been passed. But in mid-October, the leadership of the Senate has no interest in the wholesale adoption of the House version of the farm bill. The Senate intends to have its say, thank you very much

policy pennings

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Midwest Farm Press/Chris Green/10, 2001

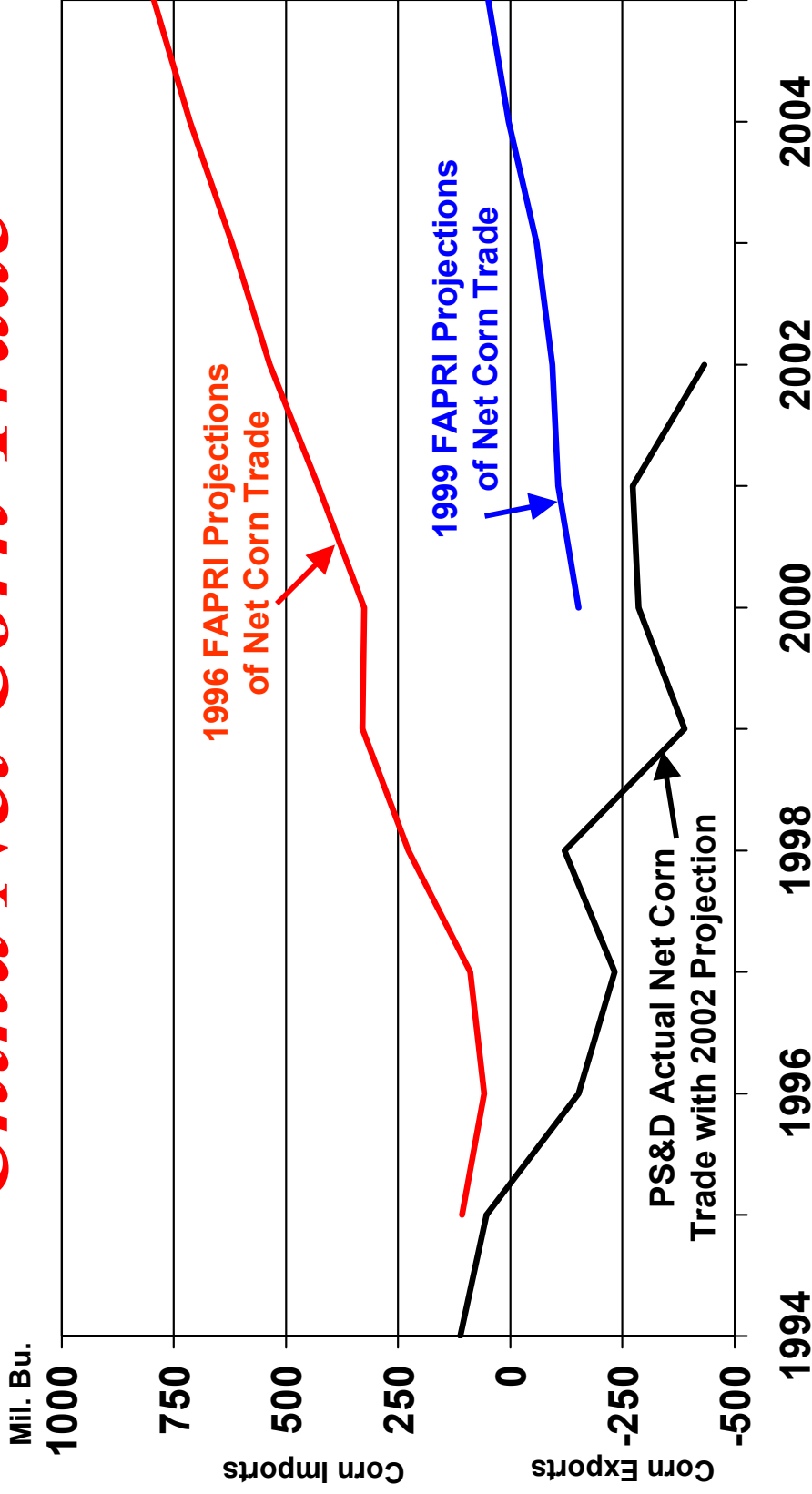
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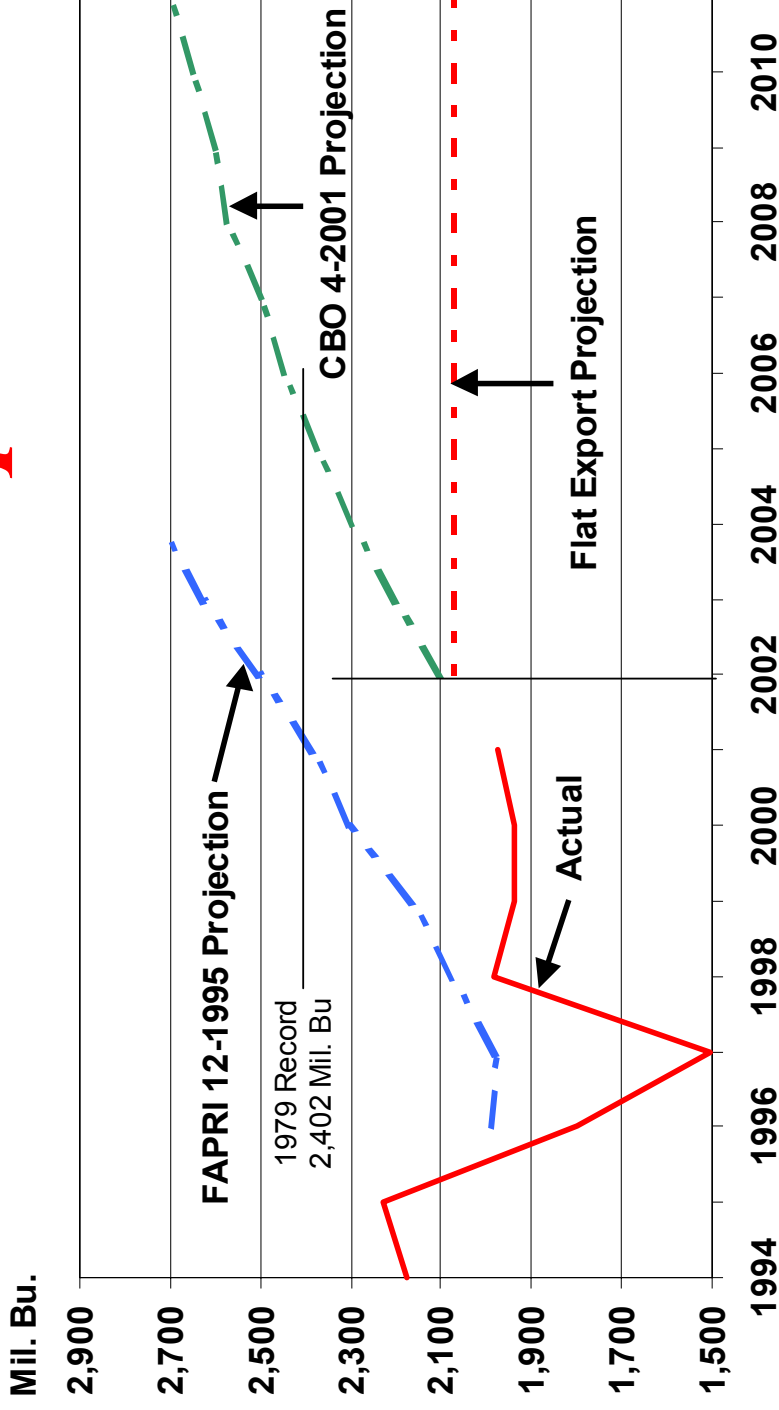
The screenshot shows a Microsoft Internet Explorer browser window displaying the APAC website. The address bar shows the URL <http://apacweb.ag.utk.edu/>. The website header includes the APAC logo and the text "The University of Tennessee" with the UT logo. The main navigation menu contains links for "About APAC", "Policy Articles", "Research Areas", "Presentations", "Publications", and "Newsletters". The main content area features a large graphic with the text "From national farm policy to state and regional issues, APAC examines policies, regulations and conditions that affect how farmers operate their business and how the agriculture sector performs." Below this graphic are several menu items: "What's New?", "About APAC", "Policy Articles by Daryll Ray", "Newsletters", "Publications", "Presentations", "Research Areas" (listing "Economics of the Ag Sector", "Farm Bill", "Tobacco Policy and Economics", "Bioenergy and New Crop Uses"), and "Research Tools" (listing "POLYSYS", "TINFARMS", "APAC Databook", "AB5"). The footer contains contact information: "Agricultural Policy Analysis Center, 310 Morgan Hall, Knoxville, TN 37996-4519", "Phone: 865.974.7407", "Fax: 865.974.7298", and a "Links" section with "Contact Us", "Search Our Site", "Need Help", and "Site Info".

China Net Corn Trade



Comparison between 1996 FAPRI projections and PS&D actual with 2001-2005 using 1999 FAPRI projections

U.S. Corn Exports



Comparison between 1995 FAPRI projection, 2001 CBO projection, 1994-2001 PS&D actual, and 2002-2011 APAC flat export projection