

Farm Policy and Industry Issues Update

USDA Agricultural Outlook Forum
February 23-24, 2023

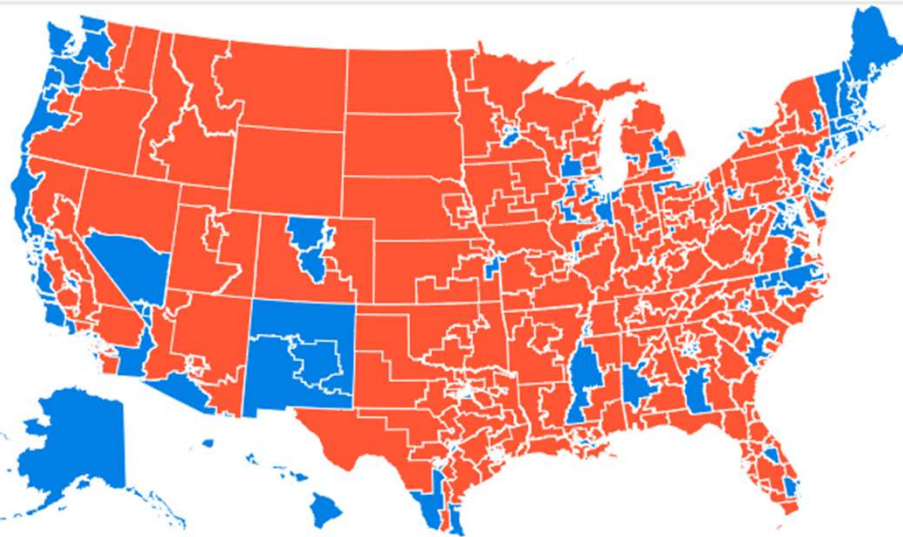
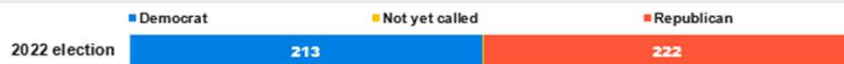


118th Congress

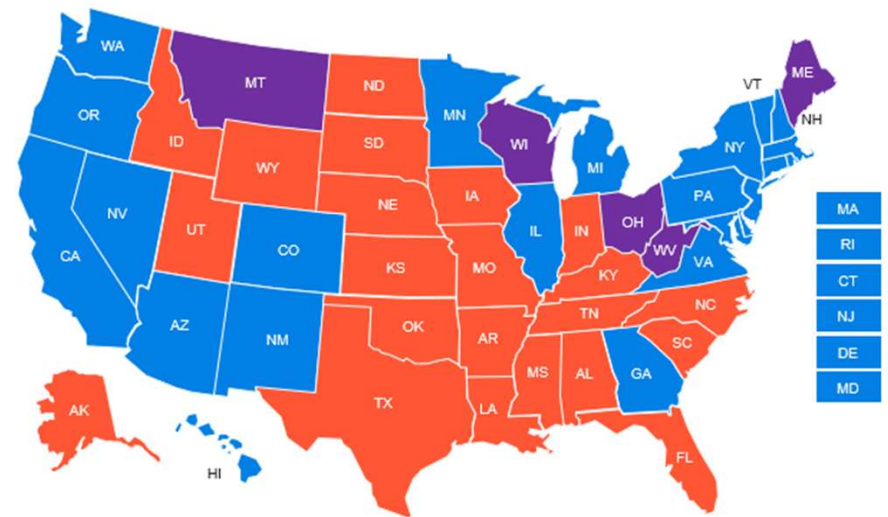


118th Congress

U.S. House



U.S. Senate



Source: Associated Press, Data as of 12/7/2022

- The 118th Congress is narrowly divided between the party caucuses in both chambers
- House - controlled by Republicans (222 to 213) with 218 votes needed
- Senate – controlled by Democrats (51 to 49) with 60 needed
- House Ag Committee - 3-vote majority for Republicans (28 R to 25 D)

2023 Farm Bill



Farm Bill Development Process

**Congressional
Hearings and
Listening
Sessions**

**Budget
Directive by
House Budget
Committee**

**Farm Bill Draft
Developed
Separately by
Chairman of
House &
Senate Ag
Committees**

**Farm Bill
Drafts Debated
and Approved
by House &
Senate Ag
Committees**

**Ag Committees
Present Farm
Bill Drafts to
Full House and
Senate for
Consideration**

Farm Bill Development Process

House/Senate
Each Pass Their
Own Version
of the Farm Bill

Joint
Conference
Committee to
Establish a
Single
Conference Bill

House/Senate
Each Pass
Conference Bill

President Signs
Bill into Law
(or can Veto)

USDA writes
the Rules and
Regulations to
Implement
Farm Bill
Programs

Farm Bill Key Players



G.T. Thompson
(R-PA) Chair,
House
Agriculture
Committee



Jodey
Arrington (R-
TX) Chair,
House Budget
Committee



Jason Smith (R-
MO) Chair, House
Ways and Means
Committee



Tom Cole (R-
OK) Chair,
House Rules
Committee



Kevin
McCarthy
(R-CA)
Speaker of
the House



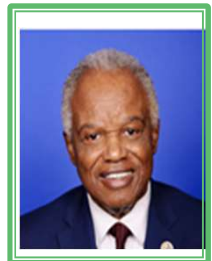
Steve Scalise
(R-LA)
Majority
Leader



Tom
Emmer (R-
MN)
Majority
Whip



Hakeem
Jeffries
(D-NY)
Minority
Leader



David Scott
(D-GA)
Ranking
Member,
House
Agriculture
Committee



Debbie
Stabenow (D-
MI) Chair,
Senate
Agriculture
Committee



John Boozman
(R-AR) Ranking
Member, Senate
Agriculture
Committee



Mitch
McConnell
(R-KY)
Senate
Minority
Leader



Chuck
Schumer
(D-NY)
Senate
Majority
Leader

Farm Bill Process

Ag Committee Hearings/Listening Sessions

Senate

- Will hold DC based hearings in both Subcommittee and Full Committee
 - Full Committee hearings will focus on government witnesses
 - **Feb. 1:** Trade and horticulture programs
 - Feb. 9:** Commodity programs, crop insurance and farm credit programs
 - Feb. 16:** Nutrition programs
 - March 1:** Conservation and forestry programs
 - March 16:** Agriculture Secretary Tom Vilsack testifies
 - Subcommittee hearings are TBD; but expected to include stakeholders

House

- Will hold listening sessions throughout the country and DC based hearings
 - First listening session was in PA; others are TBD, CA Feb. 14 and TX in March

Farm Bill Budget Process

- The President's Budget expected on March 9
- Committee Budget Views and Estimates due 6 weeks after the President's Budget – but usually sent in March
- House and Senate Committees hold hearings on the President's budget
- Budget Committees report a concurrent resolution on the budget that sets each committee's allocation of spending authority for the next fiscal year and aggregate spending and revenue levels for at least 5 years
- The budget resolution also establishes aggregate totals with respect to revenues and spending for the entire federal budget
 - This resolution, once adopted, is not law, as it is not signed by the President

Debt Limit

- Debt limit has been reached and extraordinary measures will run out in June or July
- House Republicans plan to use it to seek spending cuts – however Speaker McCarthy has said that social security and Medicare are off the table
- How will this impact the Farm Bill?



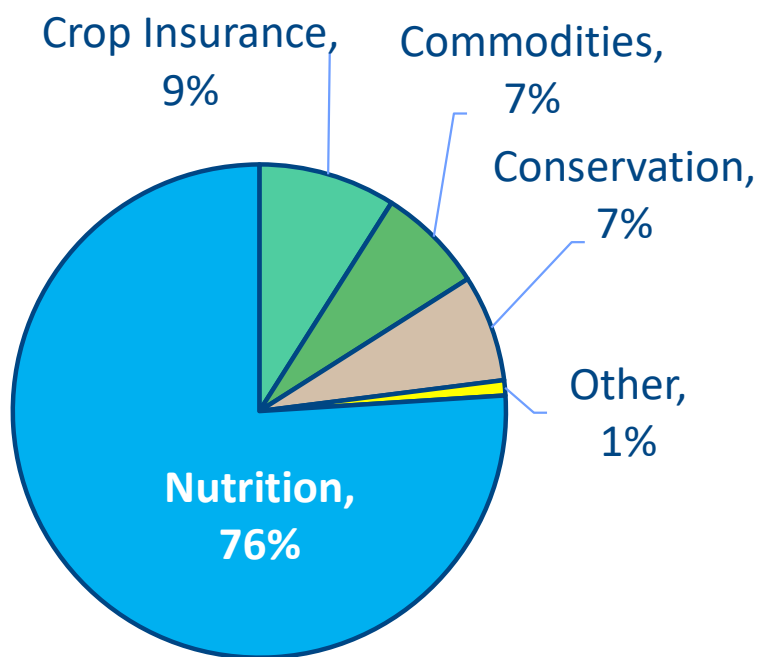
CBO Baseline

- Since the mid-1970's, the farm bill's budget is largely determined in a process led by CBO
- CBO takes all existing programs, assumes they continue operating without change, and projects their cost over the next ten years
- Under budget rules, this “baseline” becomes the spending limit for the new farm bill
- The estimation of additional outlays and potential savings relative to the baseline is one of the most critical components of farm bill development
 - Any potential change in policy will require an estimate of the impact to the CBO baseline

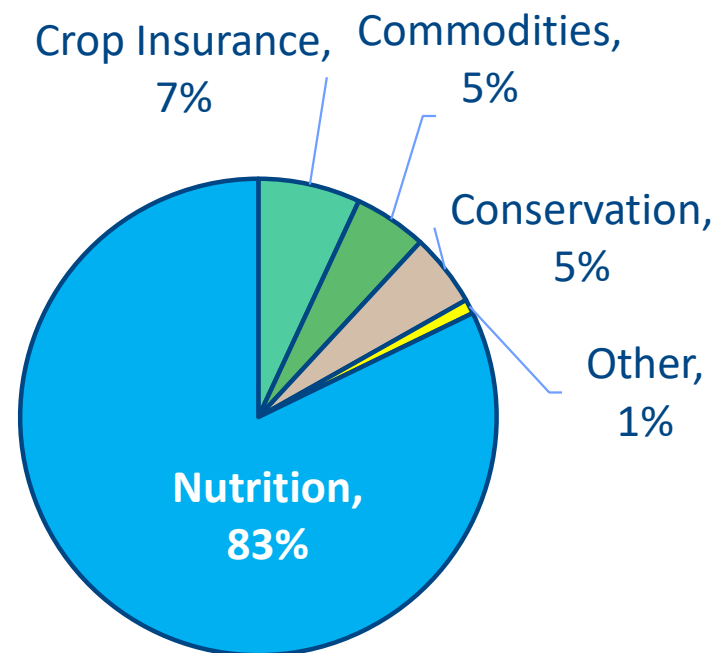
CBO Baseline

- CBO released the 10-year baseline for current farm bill programs last week
 - While it is a difficult and daunting task to project spending estimates over the next 10 years, the baseline is a fundamental component of farm bill deliberations
- An updated baseline will be published later this year (probably in May) and will likely serve as the basis for 2023 Farm Bill negotiations
 - However, the February 2023 baseline is still very important and is being used for current policy discussions

Projected Farm Bill Outlays



2018 Farm Bill



2023 Farm Bill

CBO 2018 vs. 2023 Farm Bill

10-Year Projected Outlays

Program type	2018 Farm Bill	2023 Farm Bill ¹	Difference
Nutrition	\$663.8B	\$1.2T	+ \$536.1B
Crop insurance	\$77.9B	\$97.1B	+ \$19.2B
Conservation ²	\$59.7B	\$72.6B	+ \$12.9B
Commodities	\$61.4B	\$71.8B	+ \$10.4B
Other	\$4.4B	\$9.5B	+ \$5.1B
Total	\$867.2B	1.45T	+ \$582.8B

¹ February 2023 baseline cost estimates reflect the 10-year period beginning with fiscal year 2024.

² The 2023 total includes \$15.1 billion in estimated outlays for conservation spending authorized in the Inflation Reduction Act (IRA) of 2022.

2023 Farm Bill

Cotton Priorities



2018 Farm Bill

- Basic structure of 2018 Farm Bill serves industry well
- Farm Bill programs (ARC/PLC and Marketing Loans) are foundation for safety net along with crop insurance
- However, additional funds are needed to provide adequate support

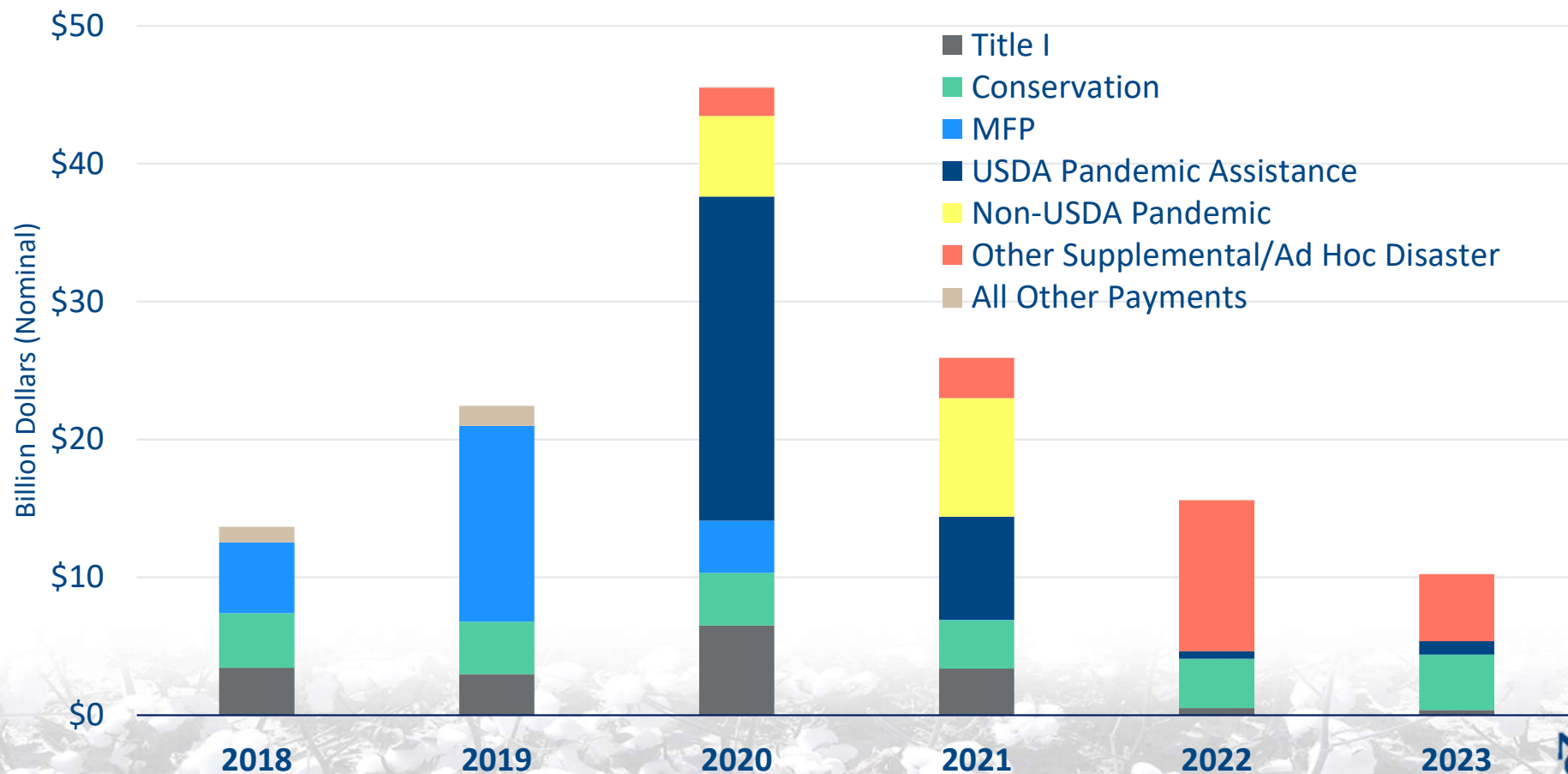


2023 Farm Bill

Budget Considerations & Challenges

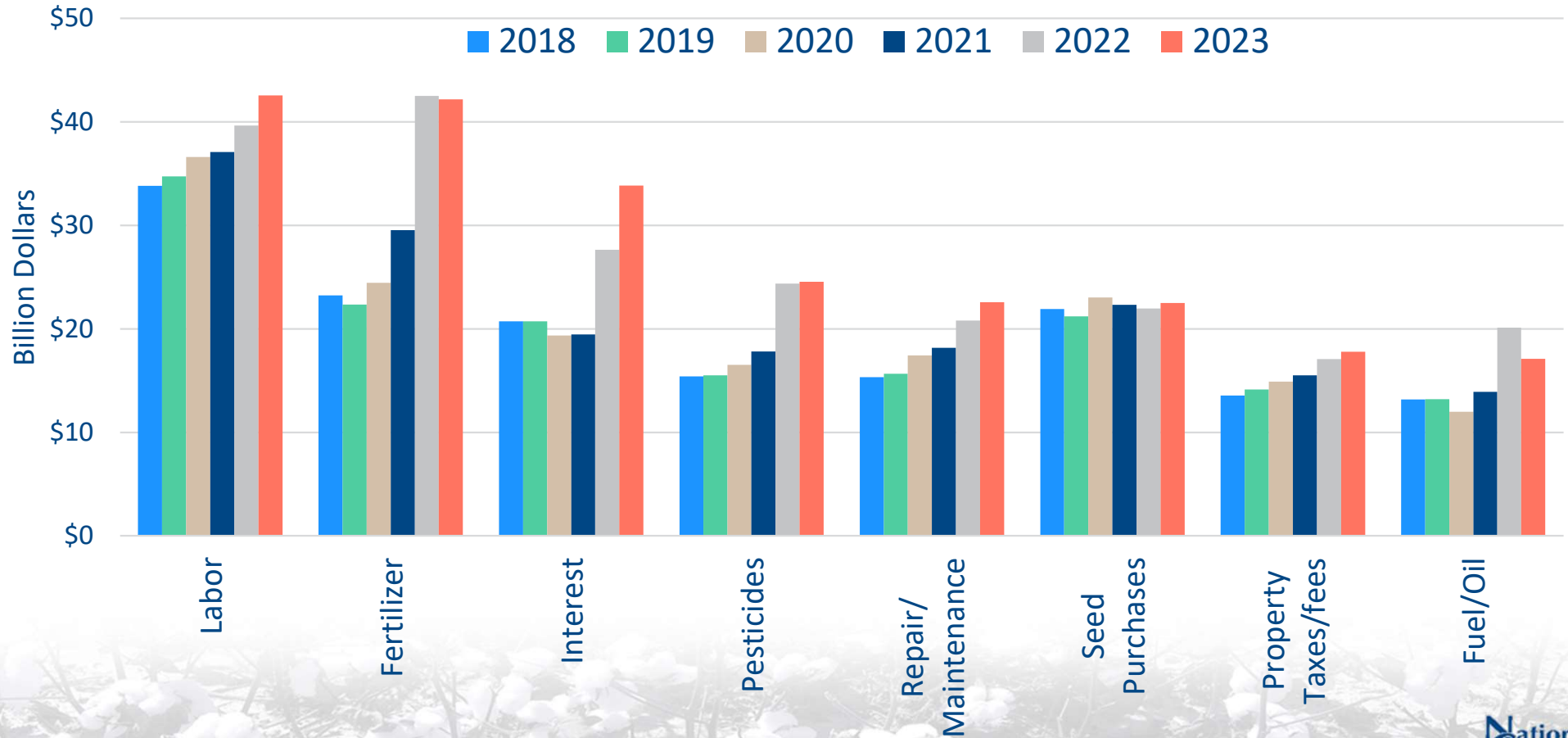
- Since the 2018 Farm Bill was developed, trade disputes, weather disasters and price declines due to COVID-19 has led Congress to allocate additional funds to the agriculture industry outside of the Farm Bill
- *ad hoc* Disaster Assistance has been significant and critical over last 5 years
 - MFP; CFAP, WHIP, WHIP, ERP (almost \$90 billion)
 - Nutrition programs have also benefitted from additional support
- None of this spending (much was emergency) will benefit farm bill budget baseline
- Where to find new budget resources to strengthen farm bill safety net?

Breakdown of Government Payments



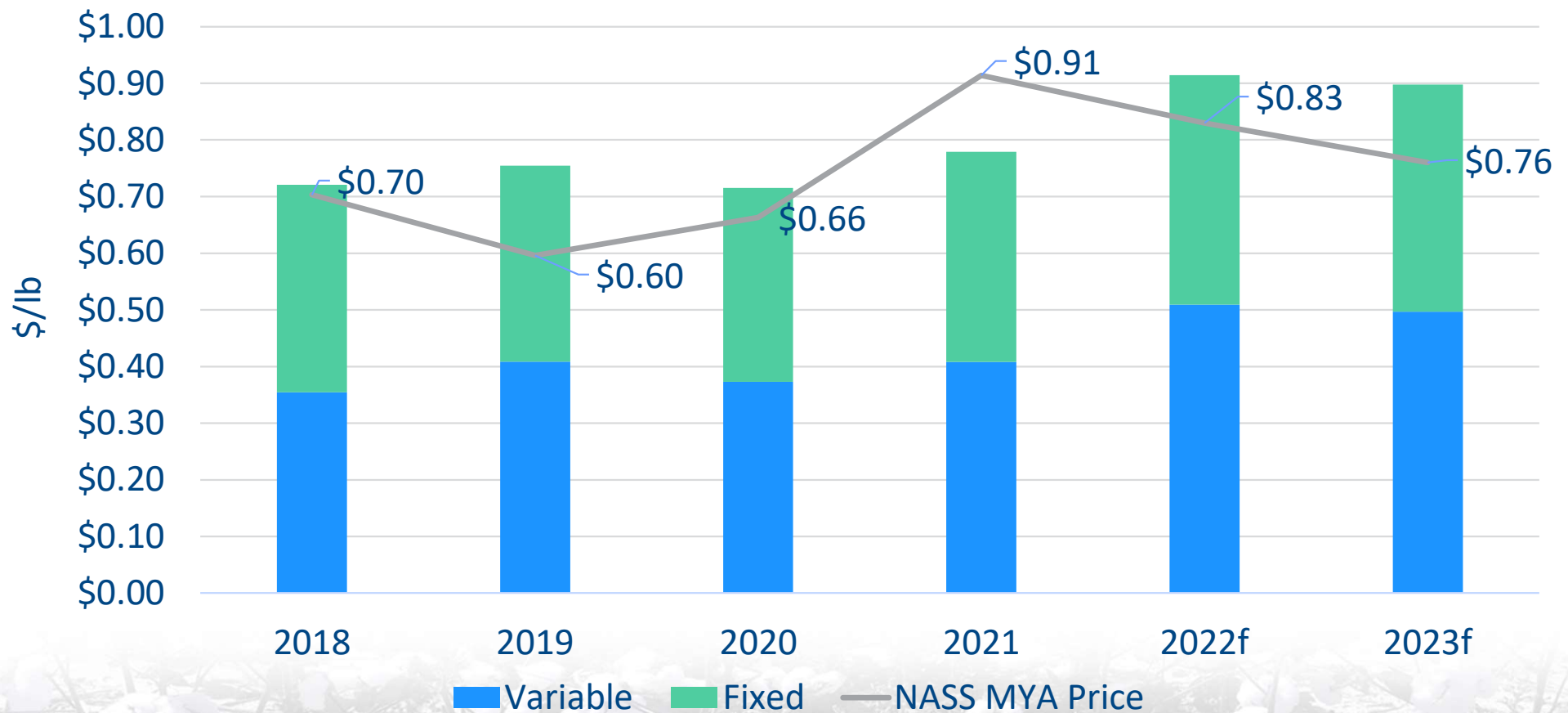
Source: U.S. Department of Agriculture, Economic Research Service. *Farm Sector Income & Finances: Farm Sector Income Forecast*, February 7, 2023.

U.S. Farm Production Expenses



Source: U.S. Department of Agriculture, Economic Research Service. *Farm Sector Income & Finances: Farm Sector Income Forecast*, February 7, 2023.

U.S. Cotton Production Costs



Source: USDA ERS - Commodity Costs and Returns (Excludes ginning costs)

*Assuming Average U.S. Yield = 850 lbs/acre

*2023 NASS MYA Price estimate based on Jan-Feb Dec 2023 futures price

2023 Farm Bill Challenges

- Nutrition programs and crop insurance are permanent law – conservation programs extended to 2031 – do those stakeholders come to the table wanting a new bill?
- 31 programs with no baseline
- Single subject bill rule – does this increase the chance of separating nutrition title from “ag” portion of farm bill?
 - Few if any groups will have an impact on this issue, but it is not helpful to the overall bill
- **IF** no new money for updating farm bill then...
 - Only opening up to potential loss or harmful changes – especially in an open or nearly open structured rule process
 - Is an extension “plus” (minor tweaks) preferred?
- Does farm bill extension become the default option?
 - If so, how long?

2023 Farm Bill

Optimism

- The general condition of the agriculture economy should improve grassroots support for a bill
- House Republicans will want to show that they can govern and pass legislation
- Supporters of agriculture are in place from the Committee level to House and Senate leadership
- Inflation Reduction Act funds will begin to roll off the table unless captured and inserted into a permanent baseline
- Chair Stabenow's retirement at the end of 2024 could be an impetus for a bill

Uyghur Forced Labor Prevention Act

- During 2020–21, several Withhold Release Orders (WROs) were issued by U.S. Customs and Border Protection (CBP) agency
 - Ban on U.S. imports of cotton and cotton products from entities in Xinjiang using forced labor
- On Dec. 23, 2021, the Uyghur Forced Labor Prevention Act was signed into law
 - This resulted in a broader ban on cotton produced in Xinjiang and products manufactured from cotton grown in the Xinjiang region

Xinjiang Uyghur Autonomous Region (XUAR)

- The majority of China's cotton is produced in the Xinjiang region
 - Accounts for about 20% of world cotton production
- China's textile manufacturers are mostly concentrated in the coastal and central regions (over 2,000 miles from Xinjiang)
 - China's cotton production was historically located near the textile industry
- A large population of Uyghur and other ethnic groups live in the Xinjiang region



USDA Foreign Agricultural Service
U.S. DEPARTMENT OF AGRICULTURE

Source: National Bureau of Statistics of China (data excluding Taiwan)
Average Cotton Production 2019-2021

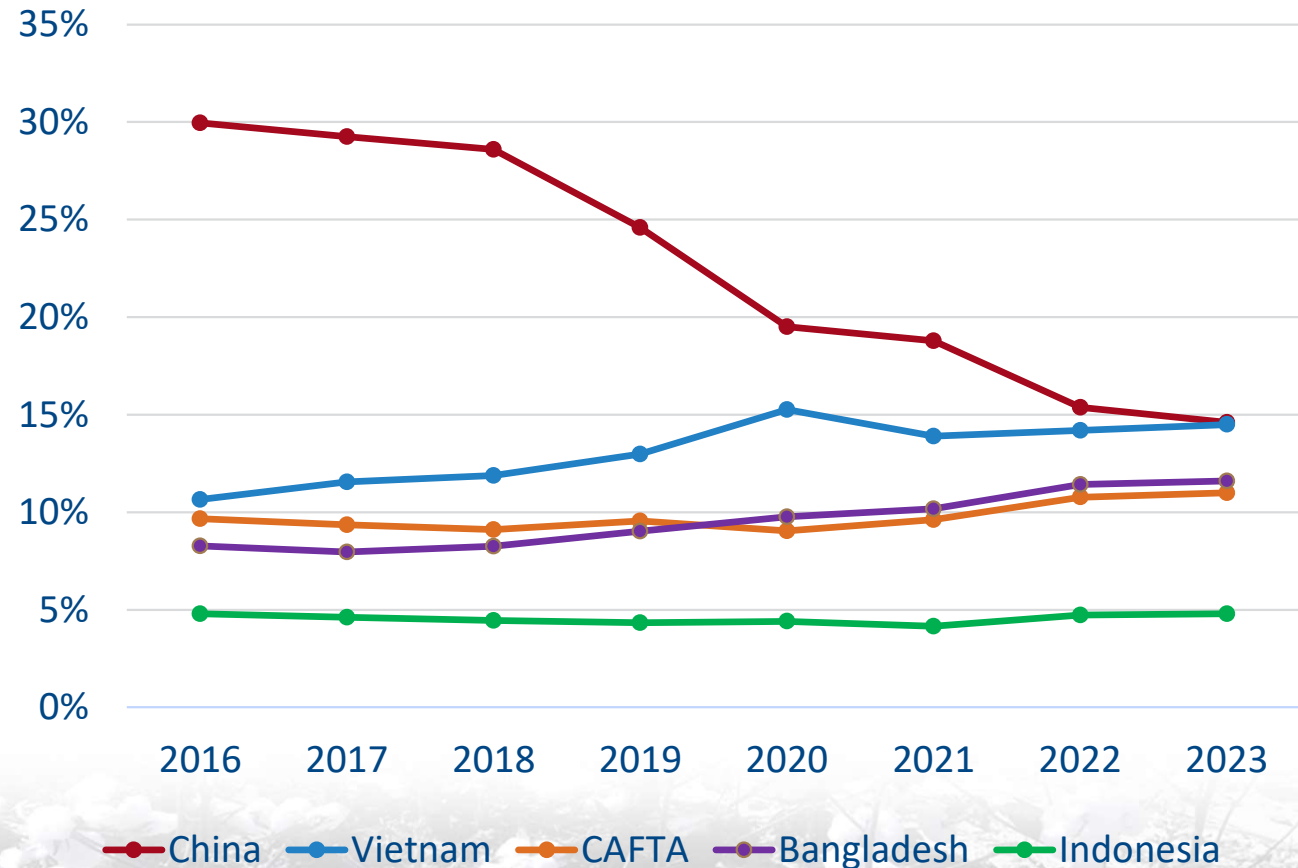
[Source: China Cotton Area, Yield and Production \(usda.gov\)](https://usda.gov)

Source: Gale, Fred and Eric Davis. August 2022. Chinese Cotton: Textiles, Imports, and Xinjiang, ERR-307, U.S. Department of Agriculture, Economic Research Service

National
Cotton
Council
OF AMERICA

Share of U.S. Cotton Textile & Apparel Imports

- It is likely that a large majority of cotton products produced in China contain cotton that was produced in Xinjiang
- China does import cotton but imports are limited through the quota system
 - 2021/22 – China consumption – 35 million bales; China imports – 7.8 million bales
- As a result, the recent decline in China's share of U.S. cotton textile/apparel productions is likely due to the ban



U.S. Cotton Trust Protocol



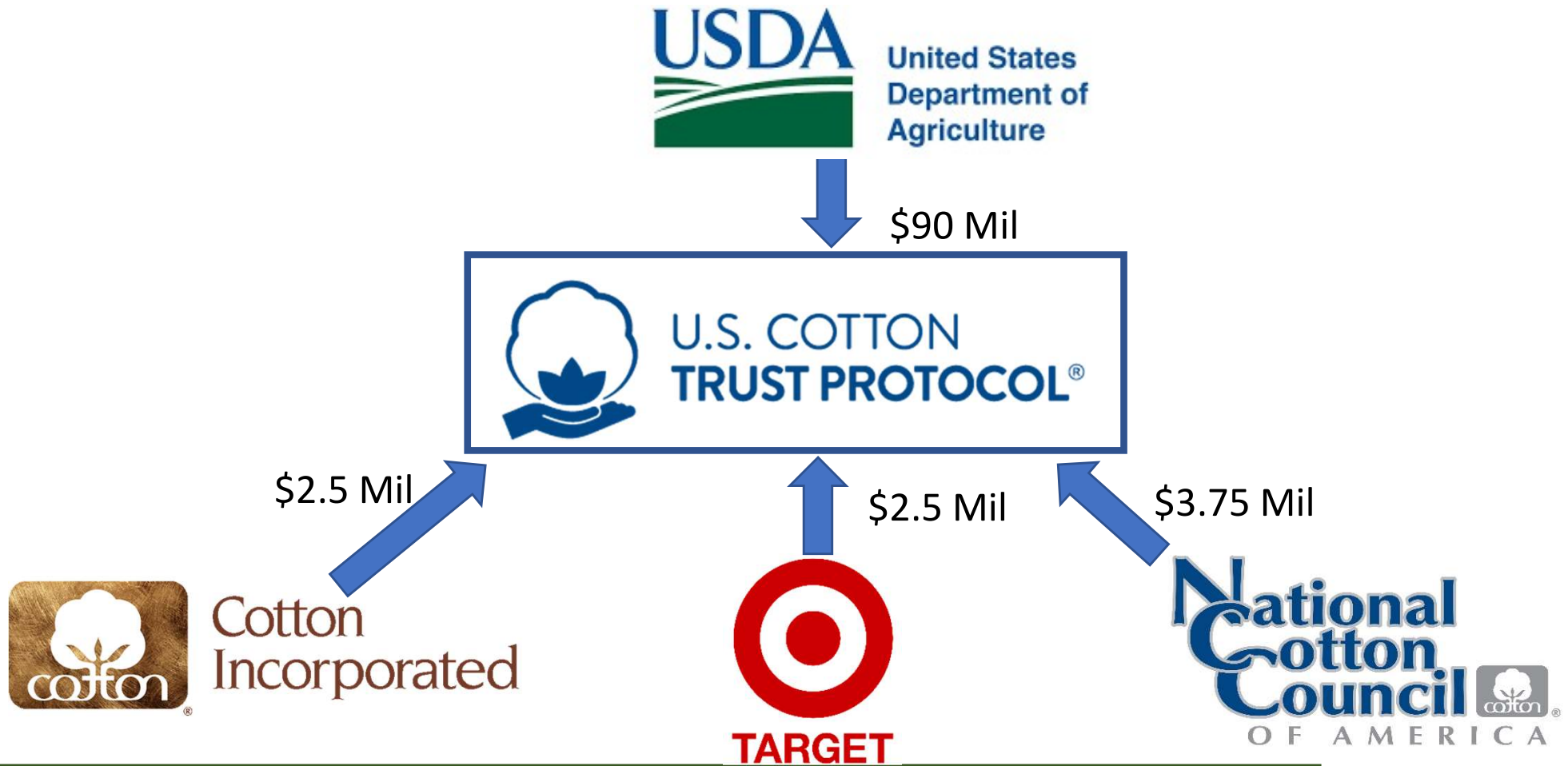
U.S. Cotton Trust Protocol



Setting a new standard that brings quantifiable and verifiable goals and measurement of more sustainable U.S. cotton production that drives continuous improvement in key sustainability metrics and provided greater transparency across the supply chain.



Climate Smart Cotton Project



Program Objectives

1. Enroll 1,650 U.S. cotton farmers, including 330 farmers from historically underserved communities
 2. Provide technical support and \$70M in financial assistance to farmers supporting long-term adoption of climate smart practices on 699K acres.
 3. Measure and track Climate Smart Cotton GHG reductions and demonstrate the scalability of USCTP platform for MMRV and supply chain tracking
 4. Develop and grow markets for Climate Smart Cotton and carbon insets among brands and retailers in the apparel industry
 5. Create and scale a carbon inset program for the cotton supply chain generating additional revenue supporting long term adoption of Climate Smart Agriculture practices
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Producers Cooperatives
Ginners Cottonseed Merchants
Warehouses Manufacturers