

Agricultural Economic and Policy Perspectives

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Payment Limitations Report

On September 4, 2003, the Commission on the Application of Payment Limits for Agriculture released its final report. Congress created the Commission through specific language inserted in last year's farm bill, more formally known as the Farm Security and Rural Investment Act (FSRIA) of 2002. The 170-page report contains the Commission's findings over the last 16 months since FSRIA became law and makes recommendations to Congress concerning the future of limits on government program payments. Figure 1 below is from the Commission's report and illustrates the projected levels of government payments over the life of FSRIA. These payments are expected

to reach their peak in 2004 and gradually decline through 2007, due to expected improvements in the farm economy during the last years of the farm bill.

Many of the Commission's findings are the same as those reported in previous issues of *Perspectives*, namely that "a larger proportion of upland cotton and rice producers are affected by current payment limits than producers of other program crops." However, the Commission notes that encountering the current payment limits is not exclusive to these crops, since producers in 43 states reached the

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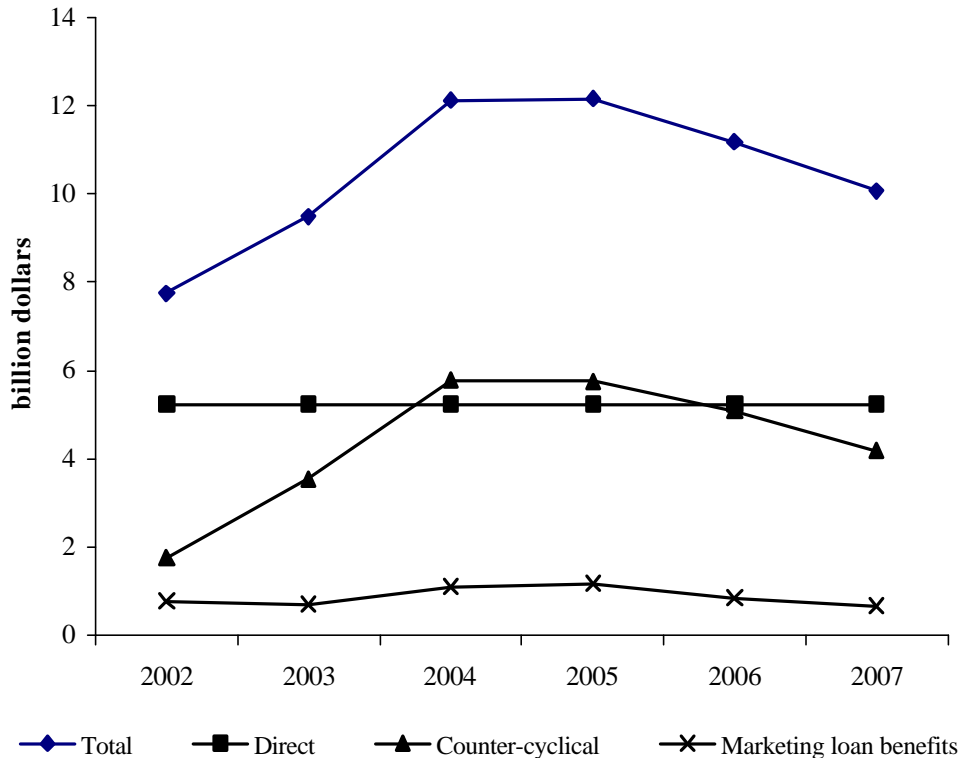


Figure 1. Projected Payments to Crop Producers, 2002-07

Source: Report of the Commission on the Application of Payment Limitations for

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Payment Limits

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limits in 2001. The Commission also found that of the farms organized into 21 or more persons, 90 percent were found in nine states, including Mississippi. Furthermore, these were also states with the largest number of producers affected by payment limitations.

Congress gave the Commission the latitude to make recommendations that it found appropriate, and two of its primary recommendations provide more support for those who advocate leaving FSRIA intact. First, the Commission believes no “substantial” changes to payment limits should take place until the next farm bill debate in 2007. Members believe that changing the farm bill at this time could undermine the stability of the farm economy and affect long-term investments in production agriculture. Second, the Commission feels that if or when significant changes are made to payment limits, these changes should be phased in over time, so that “unnecessary disruptions” to the farm economy can be avoided.

Other recommendations made by the Commission involve the administration of payment limits and efforts to make them more ‘neutral,’ so that payment limits do not result in producers choosing a particular form of business organization or taking “production and marketing risks that they would not otherwise undertake.” Similarly, Commissioners also call for payment limit policies that are “meaningful, transparent, and simple,” which would be a definite chal-

lenge for the legislative process.

An area on which Commission members were apparently starkly divided was the marketing loan program. Some members feel that the program is bedrock to U.S. farm policy and should remain largely intact. They state that “Limiting forfeiture to achieve some uniform payment limit on marketing loan benefits for all commodities and all regions would produce inequitable income risk coverage across commodities.” Another group of Commissioners believes that marketing loan benefits should all be included under a single payment limit. That is, LDPs, MLGs, certificate exchange gains, and forfeiture gains should all be included. This group believes “there is no public interest in providing benefits in excess of a reasonable level of income support for family-size operations.” They believe the impacts would not differ substantially across commodities.

Reaction to the report from producer groups has generally been favorable, as most of these groups oppose changes to the current system of payment limits. The argument against changes to payment limits in order to ensure the stability of the farm economy made by the Commission lends more support to opponents of such changes and will likely only complicate the efforts of those in Congress seeking greater limitations on government payments.

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Canadian Beef Imports to Resume

On August 8, 2003, USDA announced that the agency would begin the process of accepting applications for the importation of some ruminant-derived products from Canada. Live ruminants and most ruminant-derived products from Canada have not been allowed in the U.S. since May 20, 2003, following an order from U.S. Secretary of Agriculture Ann Veneman. (Ruminants are animals with multiple stomachs that include cattle, sheep, goats, deer, etc.) This order was issued due to the discovery of a single cow in the Canadian province of Alberta infected with Bovine Spongiform Encephalopathy (BSE), the brain-wasting condition more commonly known as “mad cow disease.”

The limited easing of the restrictions on ruminants still means that no live animals will be allowed into the U.S. from Canada; only a limited number of products may apply for import permits. These products include boneless beef from cattle less than 30 months old, veal from calves less than 36 weeks old, beef liver, and boneless sheep or goat meat from animals less than one year old. In addition to the above products, any hunter-harvested ruminants will no longer be prohibited, although the necessary permits will be required. Veneman stated that the agency’s action on the Canadian

situation is based on its exhaustive review of the case in which no other infected animals were found, allowing USDA’s experts to conclude, “. . .the risk to public health is extremely low.”

The Secretary also stated that the impact of the Canadian BSE case on world trade means that more internationally standardized procedures are needed for trade with countries known to have case(s) of BSE. The U.S., Canada, and Mexico have asked the International Office of Epizootics (OIE) to incorporate a dialogue on this issue when a group of international experts meets later this month. The OIE is an organization that sets standards for animal health for its 164 member nations.

U.S. government agencies have taken numerous steps in recent years to prevent the introduction and/or spread of BSE in the United States. In 1997, the Food and Drug Administration (FDA) initiated its prohibition on the feeding of most ruminant materials to other ruminants—the latter being a procedure thought to be largely responsible for the spread of BSE through cattle herds. The FDA and state agencies have

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Canadian Beef

(Continued from page 2), increased the number of inspections of renderers, animal feed manufacturers, feed mills, and other firms that could potentially handle prohibited animal proteins. USDA more than tripled its testing of the highest risk animals in fiscal 2002, resulting in testing rates significantly higher than those associated with OIE standards for dealing with BSE.

The BSE situation in Canada has had a major impact on the U.S. cattle market throughout the summer. Imports of Canadian cattle and beef generally represent about 5% to 7% of the total U.S. supply. The prohibition on these imports that is only now beginning to be relaxed thus had the effect of reducing beef supplies throughout the summer months—a time of typically strong beef demand. In addition, other major beef importing countries such as Japan and South Korea also placed bans on Canadian beef imports. That allowed the U.S. to capture a larger share of these important export markets.

Figure 2 illustrates how U.S. beef trade has been affected by these developments. In this figure, 2003 net beef import projections from the May and August *Livestock, Dairy, and Poultry* Report are compared. Notice that, based on preliminary data, net imports of beef were much lower than was projected in May—prior to the closing of the Canadian border. Forecasts of net imports in the third and fourth quarters have also been revised downward significantly, reflecting expectations of both smaller imports and larger exports than were projected in May.

The net effect of the Canadian BSE situation has been an unprecedented rise in cattle prices. During the first week of September, cash fed cattle were trading at just under \$85 per hundredweight, an unprecedented price for fed cattle in the summer.

The announcement of the beginning of imports of boneless muscle cuts of beef has done little to slow down the consid-

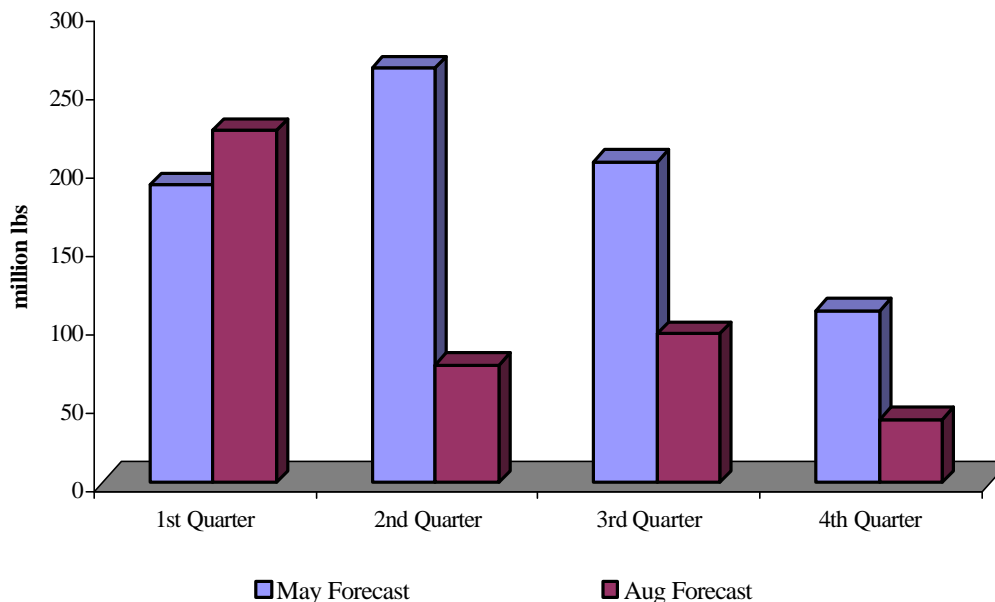


Figure 2. Net U.S. Beef Import Projections for 2003 by Quarter

Source: USDA Livestock, Dairy, and Poultry Report. May and August, 2003.

erable momentum of the fed cattle market. From early August (when USDA announced its intention to begin accepting import permit applications) to early September, the price on the October Live Cattle futures contract increased from around \$77 to around \$85 per hundredweight.

Despite the incredible strength in the cattle market, some important questions remain unanswered. When will imports of live animals resume? And how great will the supply of these Canadian cattle be? Since the outbreak of BSE, placements of feeder cattle into Canadian feedlots have been very low. It is difficult to assess how many heavy feeders currently remain outside of feedlots. These cattle could be finished for slaughter in fairly short order once the ban on live animal imports is lifted. This could obviously have the effect of reducing cattle prices in this country. Right now, two things are certain: U.S. feedlots are very current (i.e., the supply of finished cattle in feedlots is relatively small), and demand for beef in this country has been exceptionally strong in 2003. Whatever happens over the next few months in terms of Canadian cattle and beef trade, these small market-ready supplies and firm beef demand will continue to provide good fundamental support for cattle and beef prices as the end of the year approaches.

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Upcoming Events

NW District MCV Fall Meeting/Wkshop.
September 9
Batesville, MS

South Central Agricultural Lender Training Program
September 16—18
Hollywood Casino — Tunica, MS
For info, contact Gregg Ibendahl
859.257.3616

North Mississippi Beef & Dairy Field Day
September 18
North Mississippi Branch Exp. Sta.
Holly Springs, MS

13th Delta Rice Luncheon
September 19
DSU Coliseum
Cleveland, MS

Forest Investment Analysis Short Course
September 29
Jones Co. JC Forestry Building
Ellisville, MS

USDA Reports Calendar

September 5
Vegetables

September 11
Crop Production
Cotton Ginnings

September 17
Milk Production

September 19
Livestock Slaughter
Cattle on Feed
Cold Storage

September 22
Catfish Processing

September 23
Chicken and Eggs

September 26
Quarterly Hogs and Pigs

September 30
Grain Stocks
Agricultural Prices

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