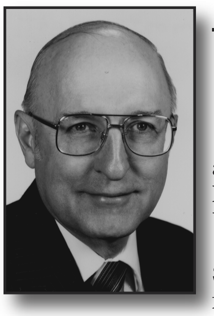
Agriculture Faces Challenges And Uncertainty In 2008



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Despite re-cord in-comes ac-hieved by many farmers is in 2007, the year ahead presents key challenges and uncertainties for U.S. agriculture in 2008.

Farm Bill. The House and Senate have passed a new farm bill. The big question is whether the conference committee can put together a final bill that can avoid a veto by the president. Both bills include new tax revenues and "scoring gimmickry".

The Bush administration has threatened a veto unless there are substantial changes from the House and Senate bills. Although the Senate passed the bill by a wide majority, the House vote suggests that they would not override the veto. The biggest conference issue is how to pay for the additional spending beyond the budget baseline. Any tax increases to pay for the increased spending beyond the budget limits could bring a veto.

A veto would force Congress to write a bill that the President would sign in time for farmers to make their 2008 planting plans. Changes in any new farm bill will likely include payment limits more restrictive than past legislation.

Ground Beef Safety. Since last spring meat suppliers have recalled more than 30 New million pounds of ground beef contaminated with the potentially lethal bacteria E. Coli, including 21.7 million pounds recalled by New Jersey based Topps meat. The Washing Post reported that the USDA inspector General stated that the agency lacks the data, management controls and technology to identify the plants at greatest risk for contamination. At one plant cited several times for sanitation problems, the inspectors lacked guidance on how to treat repeat violations.

Such reports of contamination pose a threat to the beef industry and could lead to more intensive inspection and regulation of beef packing plants.

Ethanol and Renewable Fuels. With the U.S. importing an increasing share of the petroleum that it consumes each year and world oil prices likely to remain high, the Commerce department reports that the country could face adverse economic and political consequences unless it can find alternative sources of fuel. Since agriculture depends on petroleum based fuel to power its machinery, the high costs threaten future net incomes.

The Renewable Fuel Standard in the energy bill signed by the President in December calls for producers to use at least 36 billion gallons of biofuels by 2022. Ethanol output is limited to 15 billion gallons by around 2016. The balance of the new standards is expected to come from biodiesel and fuels derived from cellulosic sources like switchgrass and wood chips.

The Wall Street Journal reports that cellulosic technology remains speculative. At this time there are only a few pilot programs but nothing on a commercial or cost effective scale. So the bill is actually legislating the creation of a new industry from scratch.

Corn for Food or Fuel? High prices for corn have benefitted grain producers but have increased costs for livestock and poultry producers. Can future demands from the ethanol industry seriously threaten feed and food prices, the traditional markets for corn. A Commerce department report suggests that livestock producers and meat packers could see their costs rise and their output fall.

Acting Secretary of Agriculture Conner has stated that there is ample acreage under cultivation to produce the ethanol and biodiesel that will be required by the new energy bill. However, to meet the demand will require the trend of increased yields each year. Congress could also help increase corn production by releasing producers from Conservation Reserve Program contracts that would allow increased acreage for corn.

Federal Tax liabilities. Just before their adjournment for the year, Congress dropped the Alternative Minimum Tax on 2007 income. The original purpose of this tax was to prevent very rich persons from avoiding paying any tax. But since the tax did not adjusted for inflation it was catching more middle income taxpayers each year. Congress will need to decide how the alternative minimum tax will be applied in future years.

The future of the Federal Estate Tax also remains uncertain. Many farm groups would like to see it eliminated. Some lawmakers favor keeping it because it is viewed as a tax on the rich. With rising farmland values, the estate issue becomes a more significant issue for farm families who own land.

Recent rulings by the Internal Revenue Service require self-employment tax payments on some income received from Conservation Reserve Program (CRP) contracts. Since these payments are paid to farm operators, retired farmers, and land owners who have never farmed, taxpayers will need to work closely with their tax preparers to determine their tax liability if they receive CRP rental payments.

Income averaging may offer special opportunities for those farmers who have high income in 2007 following by low income in previous years. Tax accountants could help some operators reduce their tax liabilities from high incomes this past year.

New Trade Agreement. With the growing legal challenges before the World Trade Organization and apparent agricultural policy backsliding in Europe, University of Illinois policy economist Robert Thompson sees a more pressing need than ever to reach a new ag trade agreement. But election year politics and different views of the candidates make it unlikely that no agreement will be reached before the election.

While many farm leaders are optimistic about the future for U. S. agriculture, this list of current issues will require continued oversight by farm and commodity organizations to make sure that policy decisions do not threaten future progress and profitability. Δ

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