



American Farmland Trust

Center for Agriculture in the Environment
DeKalb, Illinois

Background Materials and Ideas for Farm Policy Reform

Multiple authors with special thanks to Ralph Heimlich

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I.	Overview of commodity programs	5
	✦ Table: Changes in commodity programs	
II.	Income support	16
	✦ The issue	
	✦ Background	
	✦ Selected characteristics of reform	
	✦ Reform options	
	✦ Who supports it	
	✦ Who opposes it	
	✦ Research group suggestions	
	✦ Outreach group suggestions	
	✦ Summaries of ideas on income support	
	✦ Other references on income support	
III.	Counter cyclical policies	35
	✦ The issue	
	✦ Background	
	✦ Selected characteristics of reform	
	✦ Reform options	
	✦ Who supports it	
	✦ Who opposes it	
	✦ Research group suggestions	
	✦ Outreach group suggestions	
	✦ Summaries of ideas on counter-cyclical policies	
	✦ Other references on counter-cyclical policies	
IV.	Risk management policies.	50
	✦ The issue	
	✦ Background	
	✦ Selected characteristics of reform	
	✦ Reform options	
	✦ Who supports it	
	✦ Who opposes it	
	✦ Research group suggestions	
	✦ Outreach group suggestions	
	✦ Summaries of ideas on risk management	
	✦ Other references on risk management	
V.	Revenue Insurance	70
	✦ The issue	
	✦ Background	
	✦ Characteristics of revenue insurance as a policy tool	
	✦ Research group suggestions	

	✦ Outreach group suggestions	
VI.	Special Cases: Dairy	73
	✦ The issue	
	✦ Background	
	✦ Selected characteristics of reform	
	✦ Reform options	
	✦ Who supports it	
	✦ Who opposes it	
	✦ Research group suggestions	
	✦ Outreach group suggestions	
	✦ Summaries of ideas on dairy	
	✦ Other references on dairy	
VII.	Special Cases: Tobacco	91
	✦ The issue	
	✦ Background	
	✦ Selected characteristics of reform	
	✦ Reform options	
	✦ Research group suggestions	
	✦ Outreach group suggestions	
VIII.	Special Cases: Peanut	94
	✦ The issue	
	✦ Background	
	✦ Selected characteristics of reform	
	✦ Reform options	
	✦ Research group suggestions	
	✦ Outreach group suggestions	
IX.	Conservation approaches	97
	✦ The issue	
	✦ Background	
	✦ Selected characteristics of reform	
	✦ Reform options	
	✦ Who supports it	
	✦ Who opposes it	
	✦ Research group suggestions	
	✦ Outreach group suggestions	
	✦ Summaries of ideas on conservation approaches	
	✦ Other references on conservation approaches	
X.	Trade	143
	✦ The issue	
	✦ The proposed solution	
	✦ Background: Expanding global markets	
	✦ Farm policy issues	
	✦ Table: WTO “Boxes”	
	✦ Who supports it	
	✦ Who opposes it	
	✦ Research group suggestions	

	<ul style="list-style-type: none"> ✦ Outreach group suggestions ✦ Summaries of ideas on trade 	
XI.	Marketing	152
	<ul style="list-style-type: none"> ✦ The issue ✦ Background ✦ Selected characteristics of reform ✦ Reform options ✦ Research group suggestions ✦ Outreach group suggestions ✦ Summaries of ideas on marketing ✦ Other references on marketing 	
XII.	Rural Development.	171
	<ul style="list-style-type: none"> ✦ The issue ✦ The proposed solutions ✦ Who supports it ✦ Who opposes it ✦ Research group suggestions ✦ Outreach group suggestions ✦ Summaries of ideas on rural development 	
XIII.	Nutrition and Farm Support.	180
	<ul style="list-style-type: none"> ✦ The issue ✦ The proposed solutions ✦ Who supports it ✦ Who opposes it ✦ Research group suggestions ✦ Outreach group suggestions ✦ Summaries of ideas on nutrition and farm support 	
XIV.	Farm Structure and Farm Size	184
	<ul style="list-style-type: none"> ✦ The issue ✦ The proposed solutions ✦ Who supports it ✦ Who opposes it ✦ Research group suggestions ✦ Outreach group suggestions ✦ Summaries of ideas on farm structure and farm size 	
XV.	Research and Extension.	189
	<ul style="list-style-type: none"> ✦ The issue ✦ Research group suggestions ✦ Outreach group suggestions ✦ Summaries of ideas on research and extension 	
XVI.	Other Issues: Water.	195
	<ul style="list-style-type: none"> ✦ The issues ✦ Background ✦ Selected characteristics of reform ✦ Research group suggestions ✦ Outreach group suggestions 	

	✦ Summaries of ideas on water	
XVII.	Other Issues: Bio-energy	208
	✦ Agenda	
	✦ Rural development	
	✦ Farm Bill and bioenergy	
	✦ Land use	
	✦ Wildlife	
	✦ Water quality	
	✦ Research group suggestions	
	✦ Outreach group suggestions	
	✦ Summaries of ideas on bio-energy	
	✦ Other references on bio-energy	
XVIII.	Other Issues: Recreation	217
	✦ The issue	
	✦ Background	
	✦ Selected characteristics of reform	
	✦ Reform options	
	✦ Summaries of ideas on recreation	
	✦ Research group suggestions	
	✦ Outreach group suggestions	

I. OVERVIEW OF COMMODITY PROGRAMS

(1)

Article Title: Farm Commodity Programs: A comparison of farm commodity subsidies as authorized in the 1996-2001 and 2002 Farm Legislation

In 1996, Congress passed the Federal Agriculture Improvement and Reform Act (1996 Farm Bill - P.L. 104-127) with the intent of shifting farm policy toward a market-oriented approach. Unanticipated declines in export markets and in farm prices led to additional ad hoc legislation. For example, emergency laws enacted in 1998, 1999, 2000, and 2001 provided temporary supplemental aid for major commodities. The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill – P.L. 107-171) was, in part, designed to alleviate the need for further supplemental aid and support income for the U.S. field crop sector on a crop-by-crop basis (Babcock and Hart, 2005). Currently, the USDA is required by law to offer support for wheat, feed grains (corn, sorghum, barley, oats), cotton (upland and extra-long staple-ELS), rice, soybeans, other oilseeds (sunflower seed, canola, rapeseed, safflower, flaxseed, mustard seed), milk, peanuts, beet and cane sugar, wool, mohair, honey, dry peas, lentils, small chickpeas, and tobacco (Congressional Research Service, 2002). Key changes in the 2002 Farm Bill for each type of subsidy include:

- ❑ **Direct Payments:** Fixed direct payments replace Production Flexibility Contracts (PFCs).
- ❑ **Counter-cyclical income support payments:** This is a new program in 2002 designed to replace most ad hoc market loss assistance payments.
- ❑ **Marketing Assistance Loans and Loan Deficiency Payments (LDP):** Marketing loan provisions are added for peanuts, wool, mohair, and honey. Loan rates for wheat, feed grains, and upland cotton are increased from previous maximums.
- ❑ **Dairy Programs:** Northeast Dairy Compact not reauthorized. A Dairy Market Loss Payments (DMLP) Program is established.
- ❑ **Peanuts:** Marketing quota system is eliminated. A buy-out is provided to quota holders, but all farmers with a history of peanut production between 1998-2001 are eligible for fixed direct payments and counter-cyclical payments based upon an established, target price.
- ❑ **Sugar:** The USDA is given authority to accept bids from sugarcane and sugarbeet processors to obtain raw cane sugar or refined beet sugar from CCC inventory in exchange for reduced production. The Secretary is also directed to establish flexible marketing allotments for sugar producers.

Have current programs hit their mark? A recent review article by Iowa State University (Babcock and Hart 2005) concludes that the current mix of farm programs does a poor job of matching program support and market revenue shortfalls. They advocate replacing commodity, disaster and crop insurance programs with a single-payment program based on a modification of Group Risk Income Protection (GRIP).

A summary of the more specific changes for each commodity is provided in the table below.

*Source: Table adapted from information by the USDA, Economic Research Service

Title I Commodity Programs	Provision	1996 – 2001 Farm Legislation	<u>2002 Farm Bill</u>																													
Wheat, feed grains, upland cotton, rice, and oilseeds	<u>Direct Payments</u>	Farmers who participated in the wheat, corn, barley, grain sorghum, oats, upland cotton, and rice programs in any 1 of the 1991-95 could enter into 7-year production flexibility contracts (PFC) for 1996-2002 during a one-time enrollment period.	Fixed direct payments replace PFC payments. New payments are established for soybeans, other oilseeds and peanuts. Producers must enter into annual agreements to receive payments. For the 2003-07 crop years, payments should be made no sooner than October 1 for the year the crop is harvested.																													
	<u>Counter-cyclical payments</u>	Supplemental legislation authorized Market Loss Assistance (MLA) payments for wheat, feed grains, rice and upland cotton for the crop year 1998 – 2001. Payments were proportional to the PFC.	Counter-cyclical payments are available to the covered commodities whenever the effective price is less than the target price. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: center;">'02-03</td> <td style="text-align: center;">'04-07</td> </tr> <tr> <td>Wheat</td> <td style="text-align: right;">\$3.86</td> <td style="text-align: right;">\$3.92</td> </tr> <tr> <td>Corn</td> <td style="text-align: right;">\$2.60</td> <td style="text-align: right;">\$2.63</td> </tr> <tr> <td>Grain</td> <td style="text-align: right;">\$2.54</td> <td style="text-align: right;">\$2.57</td> </tr> <tr> <td>Barley</td> <td style="text-align: right;">\$2.21</td> <td style="text-align: right;">\$2.24</td> </tr> <tr> <td>Oats</td> <td style="text-align: right;">\$2.40</td> <td style="text-align: right;">\$1.44</td> </tr> <tr> <td>Cotton</td> <td style="text-align: right;">\$.724</td> <td style="text-align: right;">\$.724</td> </tr> <tr> <td>Rice</td> <td style="text-align: right;">\$10.50</td> <td style="text-align: right;">10.50</td> </tr> <tr> <td>Soybns</td> <td style="text-align: right;">\$5.80</td> <td style="text-align: right;">\$5.80</td> </tr> <tr> <td>Oilsds</td> <td style="text-align: right;">\$.098</td> <td style="text-align: right;">\$.101</td> </tr> </table>		'02-03	'04-07	Wheat	\$3.86	\$3.92	Corn	\$2.60	\$2.63	Grain	\$2.54	\$2.57	Barley	\$2.21	\$2.24	Oats	\$2.40	\$1.44	Cotton	\$.724	\$.724	Rice	\$10.50	10.50	Soybns	\$5.80	\$5.80	Oilsds	\$.098
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	<u>Marketing Assistance Loans And Loan Deficiency Payments (LDPs)</u>	Were set for wheat, feed, grains, upland cotton, rice, soybeans, and other oilseeds. The purpose of these loans was to allow producers to repay Commodity loans at a rate that is less than the original loan rate plus interest when market prices are below commodity loan rates.	Marketing loan provisions continued for wheat, feed grains, upland cotton, rice, soybeans, and other oilseeds. Marketing loan provisions extended to peanuts, wool, mohair, honey, small chickpeas, lentils, and dry beans.
	<u>Loan deficiency payments (LDPs)</u>	Available for all loan commodities, with the exception of ELS cotton.	Continued in 2002 with minor modifications. Extended to peanuts, wool, mohair, honey, small chickpeas, lentils, and dry beans. Unshorn pelts (wool), hay, and silage are also eligible for LDPs.
Upland Cotton	<u>User Marketing Certificates</u>	Issued to domestic users and exporters subject to price conditions in the U.S. and Northern Europe. The 1996 Farm legislation maintained provisions for adjustment and import quotas.	Special provisions retained except that the threshold for calculating cotton user market certificates and their value has been suspended through July 31, 2006.
Wool and mohair		Emergency legislation in 2000 and 2001 provided direct payments to wool and mohair producers in 1999 through 2001.	Marketing loan provisions extended.
Dairy	<u>Federal Milk Marketing Orders</u>	Consolidated into 11 orders, down from 33. California Permitted to use its own standards. Fluid Milk Promotion Program extended through 2002.	Federal Milk Marketing Orders continue.

Dairy, continued	<u>Northeast Dairy Compact</u>	Secretary authorized to allow New England to enter into a Dairy compact.	Dairy Compact not reauthorized.
	<u>Price Support</u>	The minimum support price for milk containing 3.67% Butterfat declined from \$10.35 per hundred weight in 1996 to \$9.90 in 1999. Price support ultimately extended until May 31, 2002 via supplemental legislation.	Minimum price support for milk is fixed at \$9.90 per cwt for milk containing 3.67% butterfat. Other Provisions are extended.
	<u>National dairy market loss payments</u>	Authorized by supplemental Legislation to be paid to dairy Producers in 1999-2001.	The national dairy market loss payments (DMLP) program established. Producers enter into contracts ending on September 30, 2005.
	<u>Dairy Export Incentive Program (DEIP)</u>	A program to subsidize exports of U.S. dairy products. DEIP was extended to 2002.	DEIP extended until 2007.
Peanuts	<u>Price Support</u>	<p>The peanut program is based upon a 2-tier price support program based on nonrecourse loans for quota peanuts. During the 1996-2001 farm legislation, this program was revised to make it a no net cost program.</p> <p>The support rate for peanuts produced by quota owners was frozen at \$610 per short ton.</p>	<p>The peanut price support program is converted into a system of direct and counter-cyclical payments, and nonrecourse loans. The marketing quota system is eliminated with a quota buyout.</p> <p>Peanut producers may receive loans by pledging production as collateral. The loan rate is fixed at \$355 per ton plus interest.</p>

	<u>Direct Payments</u>	No similar provisions.	A new direct payment of \$36 per ton is available to peanut producers. The payment is fixed and is made regardless of current prices.
	<u>Counter-cyclical payments</u>	Supplemental legislation provided payments to producers in Crop Years 2000 and 2001.	Peanut producers eligible for new counter-cyclical payments when market prices are below an established target price of \$495 per ton.
Peanuts	<u>Quota</u>	The minimum national quota and provisions for carryover of undermarketings were eliminated. Quota was redefined to exclude seed use, but temporary seed quotas were granted.	Marketing quota for peanuts is repealed. Quota owners receive compensation for the lost asset value of their quota in five annual installments during FY 2002-06. Quota owners may opt to take the outstanding payment due to them in a lump sum.

Sugar, continued	<u>Payment-in-kind (PIK)</u>	Offered sugarbeet farmers the option of diverting a portion of their crop from production in exchange for receiving CCC sugar held in inventory. This was offered in August 2000 and 2001.	PIK program continues. The Secretary can now exchange CCC-owned sugar for reduction in acreage prior to planting, in addition to existing PIK authority.
	<u>Tariff-rate quota (TRQ)</u>	A TRQ limited imports and helped maintain U.S. prices at levels to prevent forfeiture of CCC loans.	TRQs retained. On June 1 st , the U.S. Trade Representative, along with USDA, calculates used and unused quota for each quota-holding country and may reallocate unused quota to qualified quota holders.
	<u>Marketing allotments</u>	The marketing allotments previously authorized in the 1990 Farm Act are not reauthorized.	Inventory management introduced. Secretary can impose marketing allotments to balance markets. Allotment levels are to be divided between beet processors and cane producers. Cost of storing excess production is shifted from the Government to the industry. When allotments are in place, processors who expanded marketings in excess of the rate of growth in domestic sugar demand will have to postpone sale of some sugar, and either store it at their own expense or sell it other than domestic food use.

	<u>Sugar Storage Facility Loan Program</u>	No similar provisions.	Provides financing for processors of domestically produced sugarcane and sugarbeets to construct or upgrade storage and handling facilities for raw and refined sugars. This program extends to sugar processors the type of storage facility loan program available to grain and other crop farmers.
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(2)

Article Title: Farm Programs, Natural Amenities, and Rural Development.

Authors: David McGranahan and Patrick Sullivan.

Date: ERS 2005

America's farmers receive government assistance through a number of different programs and policies, including direct farm program payments, indirect support through programs that enhance domestic and international demand for U.S. commodities or constrain domestic supplies and imports, crop insurance premium subsidies, farm loan subsidies, and Federal tax provisions. This article examines the impact of direct farm program payments—those that are delivered directly to participating farm operators and/or farmland owners—which totaled over \$44 billion in 1999-2000.

Direct government payments take several forms:

- Fixed income transfers (sometimes referred to as “decoupled payments”) do not depend on the farmer's production choices, output levels, or market conditions. These include production flexibility contract and fixed direct payments (23 percent of total direct government payments in 1999-2000).
- Marketing loan and other miscellaneous program benefits augment market receipts when commodity prices are low and, thus, depend on the farmer's production and market conditions. These include countercyclical and loan deficiency payments (33 percent).
- Ad hoc emergency payments compensate eligible farmers for economic or natural disasters. These include crop disaster payments, dairy indemnity and market loss payments, livestock compensation and emergency assistance payments, among others (37 percent).
- Conservation payments reimburse participating farmers for all or part of the cost of implementing conservation practices. These include Conservation Reserve Program (CRP), Wetland Reserve Program, and Environmental Quality Incentive Program payments, among others (7 percent).

Farm programs are not designed to support rural economic development. Even the CRP, with its beneficial effects on the rural landscape and environment, is not aimed at rural development. Potential scenic value is not an eligibility criterion, there is no provision that CRP land be accessible to the public, and there are no incentives to create larger conservation areas by having farmers with contiguous properties apply as a unit. Indeed, farm program payments have had some unintended consequences from a rural development perspective. For instance, higher payments can increase farmland prices, making it more difficult for beginning farmers and land-intensive nonfarm businesses to get started. To the extent that land is owned by absentees, farm program payments may benefit absentee owners more than local farm operators and farming communities. Finally, with most payments going to the largest farms, higher program payments may have encouraged farm consolidation and fewer farms over the long run.

(3)

Highlights of Recommendations from Illinois Farm Bureau
June 2005 (first recommendations from a state Farm Bureau –
both AFT research group and kitchen cabinet represented on this task force)

Farm Bill should be an integral part of the solution for hunger, energy, environment, food security, our balance of trade and national security. We should receive credit for wildlife and habitat.

- Strengthening the criteria for non-landowner persons eligible for farm program payments by requiring a significant contribution of active personal management in the farm decision making process and labor in the farming operation of the smaller of 1,000 hours in a year or one-half of the hours needed to operate a farm comparable in size to the person's share of the operation. The current exemption for crop share landowners should be continued
- Use of social security numbers to directly attribute farm program payments to eligible persons as defined by the next farm bill.
- The Marketing Loan Program should be transitioned into a new farm program offering. The funds used by the Marketing Loan Program should be applied to an Adjusted Gross Revenue Crop Insurance Policy options to farm program enrollees.
- SNRM – Provide an AGR-type policy to protect producer's revenue.
- Include a buy-up provision
- Transition LDPs and CC payments to offset costs of establishing revenue protection and conservation programs.
- Change the marketing loan to a recourse loan – repaid in full value. This should be used as a cash flow tool so the producer is not forced to sell crop during periods of low prices.
- Maintain loan rates at their current levels
- The Counter-cyclical program funding should be transitioned into conservation-based programs including best management practices. The programs should be voluntary and incentive based.
- Planting flexibility for all crops.
- Continue to support and fund promotion of U.S. agricultural products through USDA programs like MAP and FMD.
- Support federal funding of and public/private incentives for food aid, in order to:
 - Provide domestic and international humanitarian relief in accordance with international trade rules
 - Improve the sale-ability and positive public relations value of U.S. agricultural products
 - Move towards targeted assistance using further processed or finished food products
 - Shift away from funding programs that are considered export subsidies
- Regulation cost assistance programs for construction and technical assistance.
- Continued funding for CRP
- Administrative adjustments should be made to address new landowner/tenant relationships. i.e. power of attorney, non-participating landlords.
- Best Management practices and EQIP program funding

Debate of Farm Policy and the 2007 Farm Bill

- If governments payments – what mechanism will payments be distributed and who qualifies for payments?
- Should safety-net policies be ad-hoc or automatic?.
- How should safety-net costs be shared between taxpayers and farmers?
- Which farmers should be assisted?
- Should federal farm programs focus on production, people or something else?

II. INCOME SUPPORT

The Issue

Issues revolve around the need for income support, the appropriate level of farm income, the appropriate mechanism to maintain income, eligibility for this support and the ancillary impacts on production, trade, land values, and government costs and bureaucracy. How do we ensure that farm income levels are adequate and appropriate? Solutions to these problems involve some stark choices. Support incomes directly or support commodity prices? Provide support in all years or only in years with low incomes or prices (counter-cyclical). Should payments be linked to annual production decisions? Require reductions in the supply of commodities produced or marketed or not? Target subsidies to higher cost producers, to lower income producers, to those with lower total (farm and non-farm) household incomes? How can we reduce subsidies that are propping up land values above what commodity markets would justify? Can we avoid distorting price-cost relationships that affect trade?

Background

Beginning in the mid-1980s and continuing through the 1990s, a series of important changes in U.S. farm commodity programs moved agriculture from a highly managed sector in the early 1980s toward one with greater market orientation, particularly with regard to programs affecting farmers' production decisions. The 1996 Farm Bill fundamentally redesigned income support for major crops with the termination of acreage reduction programs and the introduction of decoupled production flexibility contract (PFC) payments with almost total planting flexibility. PFC payments were made in proportion to what producers had received in 1990-95, or could have received if they had enrolled in the programs available then. Each participating producer received a fixed schedule of payments that gradually declined through 2002. The aggregate of these payments left the 2002 level well below historical payment levels. After initial hesitation, farm groups came to support the legislation when it became clear that the initial payments of 1996 would be well above what producers could expect to receive under the pre-1996 programs (because 1996 commodity prices were above the supported levels). However, in 1997, prices headed lower, mainly because lower demand for U.S. grain in world markets. Grain and soybean prices have remained at historically low

levels ever since. In response, Congress has supplemented fixed payments with emergency market loss assistance payments approximately equal to 50 percent of PFCs in 1998 and 100 percent in 1999, 2000, and 2001. Marketing loans and counter-cyclical payments provide additional income support when prices are low. More information on how programs affect production is provided in *Farm Program Effects on Agricultural Production: Coupled and Decoupled Programs*, a USDA ERS publication available at <http://ers.usda.gov/Publications/aer838/aer838b.pdf>

Pressures for agricultural policy reform come from many different constituencies, both in the U.S. as well as from our trade partners. Price support programs (for example, sugar and dairy) that rely on limiting imports could face increasing pressure for reform with a new WTO agreement.

Farm programs are coupled if there is a direct link between the determination of the program benefit and the farmer's production and market conditions (such as prices). In turn, the benefits of coupled programs affect per-unit net returns associated with specific production choices. That is, coupled programs may increase farmers' profit from growing crops such as corn or soybeans. As a result, these programs have the greatest potential to affect agricultural production and markets. In contrast, decoupled payments are fixed income transfers that do not depend on the farmer's production choices, output levels, or market conditions. Decoupled program benefits do not subsidize production activities, inputs, or practices. These income transfers do not change per-unit net returns, so they have no direct effect on production decisions for specific commodities.

Selected Characteristics of Reform

Any farm income support reform proposals might have the following characteristics:

1. Be available to a wider set of crops, such as fruits and vegetables, and producers than the traditionally supported commodities and current programs.
2. Have stricter payment limitations that control the amount any one individual can receive and limit payments to those who have a substantial role in production.
3. Be means tested to limit payments to producers with substantial off-farm income (how much?). Should on-farm income limits also be means-tested?
4. Be paid to individuals (human beings), not entities.
5. Be decoupled from annual production decisions to avoid trade distortion and "farming" the programs.

6. Be cognizant of and avoid capitalization into land values.
7. Support farm incomes, not commodity prices, which tend to become floor prices for world markets.
8. Provide a “safety net” in unusual market years, not a payment that occurs every year regardless of need.
9. Not attempt supply control through expensive commodity storage.
10. Phase out commodity programs [except for 1996, which failed, phase-out has never succeeded].
11. Insure that commodity programs meet all international trade commitments.

Reform Options

1. Retain existing programs and “tweak” parameters and rules, such as the target prices, loan rates, participation rules, and payment limitations.
2. Adjust parameter levels so that payments are only triggered when market-based income levels fall below long-term averages, serving only as a “safety net.”
3. Broaden existing programs to other commodities and farm types.
4. Eliminate income support programs. Get government out of income support and “tinkering” with commodity production.

Note: Proposals for reform of income support are likely to be linked to proposals for risk management and counter-cyclical programs.

Who Supports It?

1. Supported producers—current recipients of the system
2. Consumers-domestic—beneficiaries of a cheap food system
3. Agribusiness-exporters—beneficiaries of a cheap food system
4. Agribusiness-input suppliers—beneficiaries of expanded production
5. Farm area businesses—beneficiaries of increased farm area income
6. Commodity groups—advocates for their producers
7. Farm lenders—beneficiaries of increased farm income to repay loans

Who Opposes It?

1. Unsupported producers—not currently recipients
2. Foreign producers—developed countries—competitors of U.S. producers
3. Foreign producers—less developed countries—often competitors for crops that would not be grown in the U.S. without subsidy (cotton, rice, sugar)
4. The poor and their advocates—oppose business/corporate welfare
5. Health advocates—oppose support for commodities that may contribute to obesity and other potential health problems
6. Sustainable agriculture—oppose support for unsustainable farming methods using inorganic fertilizers and pesticides
7. Taxpayers—oppose unnecessary subsidy of business
8. Fiscal conservatives—oppose agriculture’s contribution to deficits

9. Enviro—oppose subsidies that expand production and support environmentally unfriendly production practices
10. Small farmers—oppose subsidies that generally benefit larger farms
11. Immigration reformers—oppose policies that divert foreign workers from their domestic agriculture to the U.S.
12. Farm workers and their advocates—oppose subsidies to agricultural producers in favor of subsidies for farm workers
13. Global/free trade advocates—oppose subsidies that distort world agricultural trade

Research Group Suggestions

Subsidy Transition:

1. Shift to safety net and CSP-type program
2. Link a significant portion of payments to community benefits with a transition strategy.
3. Eliminate current commodity programs and base safety net payments on farm income.
4. Decouple payments from commodities grown, using historic net farm income to determine base payments
5. Permanently buy out base acres
6. Create a better safety net
7. Shift to producer environmental benefits
8. Transition to outcome based conservation programs and actuarially sound revenue-based insurance system
9. Transition to solid risk safety net
10. Shift toward conservation and require recipients to keep farming or maintain option to farm
11. Shift to safety net programs tailored for individual commodities
12. Eliminate direct payments
13. Shift bulk commodity market supports to AGR over time with percent supported by government
14. Leave commodity programs as they are and undo payment limitations.
15. Index payments for inflation.
16. Keep Loan Deficiency payments (LDPs).
17. Increase the loan rate going to production.
18. Include fruits and vegetables in the commodity title but only with additional funding.
19. Link payments to mandatory, not discretionary spending.
20. Provide regionally based program for perishable commodities and ensure the infrastructure to support this.

Subsidy Replacement:

1. Price supports that replace disaster payments, keeping prices below or at cost of production
2. Shift to CSP type program
3. Replace with true safety net. Producers have to participate in safety net to be eligible for insurance
4. Some version of price supports to help producers survive market crashes.

5. Better safety net with income protection, risk insurance, farmer savings accounts and disaster crop insurance
6. Payments for amenities coupled with comprehensive approach to risk management
7. Outcome based conservation programs and actuarially sound revenue-based insurance system; keep direct payments as bargaining chip to use with other countries to gain market access
8. Solid risk safety net that includes disaster relief and CSP-type conservation program
9. Safety net with enhanced crop insurance that provides some degree of revenue assurance and protection from catastrophic loss and CSP tied to value or crop and/or cost of land
10. Safety net payments that provide income in unusual years, cover crop failures and make up for poor markets plus CSP type program
11. Establish a floor price for commodities (e.g. 1996 Farm Bill).
12. Administer base program nationally with payments reflecting good farming practices, adjustments for capital expenditures/gains and mechanisms to permit new farmers. Enhanced payments based on conservation and community benefits
13. Transition to government support for working landscapes and pay farmers for public amenities and for protecting soil and water resources with payments tied to performance and environmental outcomes. Provide a safety net for all farmers, insuring long-term income, not crop based and eliminate disaster payments.

Outreach Group Suggestions

1. Require USDA/independent organization to conduct a study to quantify discrepancy by race in CAB payments.
2. Restore stolen base, make available inventoried lands to black farmers. Give them first right to buy and provide financing.
3. Equalize subsidy payments for blacks compared to whites.
4. Recalculate base acres to remove inequities based on prior discrimination.

Summaries of Ideas on Income Support

(1)

Article Title: Directions for Future Farm Policy: the Role of Government in Support of Production
Agriculture: Report to the President and Congress

Authors: The Commission on 21st Century Production Agriculture

Article Date: January 2001

Source: <http://www.usda.gov/oce/21st-century/report.pdf>

Category: Income Support / Risk Management / Counter-cyclical Policies

The Commission was established in the 1996 Farm Bill to conduct a comprehensive review of farm policy and recommend changes. They solicited the views of nearly 60 experts and heard testimony from more than 200 farmers, ranchers and other stakeholders representing 30 states. A sampling of recommendations relevant to a 2007 Farm Bill include:

Income Safety Net (Counter-cyclical Payments)

The Commission identified the need to provide a flexible safety net for supporting producer income in times of adverse economic conditions. Their recommended policies included:

- The continuation of a fixed Agricultural market Transition Act (AMTA) payment consistent with existing baseline budget allocations and the adoption of an additional counter-cyclical income support program. The Supplemental Income Support program (SIS) would provide supplemental payments when aggregate program crop gross income falls below some percentage of the historical income level calculated over a fixed-base reference period. SIS payments would be counter-cyclical in that no payments would be made if aggregate income is above the fixed-base reference level. SIS payments would be decoupled from current prices and yields for any specific commodity and, as such, would be exempt from current commitments on WTO Aggregate Measure of Support expenditures. While the program suggested is expected to apply to major program crops, it could be extended to encompass other commodities.
- Continue the current marketing assistance loan program including loan deficiency payments (LDP) and marketing loan gains, while adjusting marketing loan rates to reflect a closer balance between the historical market value of individual crops. Remove limitations on all government payments to producers.

Risk Management

- Possibly move to an actuarially sound crop/revenue insurance program with products provided by private companies. Under this program, the government would not underwrite a portion of the insurance companies' risk but instead provides farmers with a voucher to offset the cost of insurance premiums.
- Establish a tax preferred savings account such as the Farm and Ranch Risk Management (FARRM) account without restrictions on how long money may be left in the account. The removal of the time restriction on monies in the account would allow the FARRM account to serve both as a cash reserve for low-income years and an alternative retirement fund for the producer. The Commission

offered detailed explanations of three different farm savings accounts and how they would work: the Individual Risk Management Account (IRMA), the Farm and Ranch Risk Management Account (FARRM) and the Net Income Stabilization Account (NISM). They preferred FARRM.

(2)

Article Title: Report of the Commission on the Application of Payment Limitations for Agriculture

Authors: Commission on the Application of Payment Limitations for Agriculture

Article Date: August 2003

Source: <http://www.usda.gov/oce/oce/Document%20Archive/payments/payment-commission.htm>

Category: Income Support / Risk Management / Counter-cyclical Policies

The Commission was established by the 2002 Farm Bill to study the potential impacts of further payment limitations on direct, counter-cyclical and marketing assistance loan payments on farm income, land values, rural communities, agribusiness infrastructure, planting decisions of producers affected, and supply and prices of covered and other agricultural commodities.

They concluded that acreage and price effects are likely to be greatest in the short term. Over time, producers affected by further payment limitations are likely to adjust their operations accordingly.

Recommendations include:

1. Timing of changes in levels and application of payment limits:
 - Any substantial changes should take place with the reauthorization of the 2007 Farm Bill. The 2007 Farm Bill establishes farm payment programs, including payment limits, through the 2007 crop year and producers, their lenders and other agribusiness firms make long-term investments based on this multi-year legislation.
 - If substantial changes are made, there should be an adequate phase-in period. This will help avoid unnecessary disruptions in production, marketing and business organization, including landowner-tenant lease arrangement.
2. General Administration of payment limits:
 - More resources should be allocated for payment limit administration in USDA's Farm Service Agency (FSA) and Office of Inspector General (OIG). More resources could augment current efforts to train staff on payment limits and monitor compliance and enforcement. Consider developing a system of graduated penalties for intentional violations of regulations that would make the penalty commensurate with the degree of the infraction.
 - Payment eligibility and limitation statutes and regulations should not create incentives that lead producers to choose one form of business organization over another.
 - Payment eligibility and limitation statutes and regulations should not cause producers to take on production and marketing risks that they would not otherwise undertake. Share-lease arrangements are important risk-sharing mechanisms for producers.
 - Efforts to change payment limit policies should strive to make the policies meaningful, transparent and simple.

- Changes in payment limits should be sensitive to differences in commodities, regions and existing agribusiness infrastructure.
3. Need for additional information
- USDA should provide more complete data on farm program benefits. There is no direct information available on how farms would be affected by further payment limitations. USDA also needs to implement section 1614 of the 2002 Act, which requires tracking of benefits provided directly or indirectly to individuals and entities.
 - Develop and analyze alternative ways of addressing payment limits, eligibility and limit implementation. Changes in payment limits should not be made without an understanding of the costs and benefits of the change.
4. Payment limit implementation and eligibility requirements:
- Attribute payments directly to individuals (human beings) to improve program transparency, administration and farm business efficiency. Currently, payments are attributed to persons, which may be individuals or entities, such as corporations. Differential treatment of the various forms of business organizations creates incentives for producers to choose business organizations based on payments rather than risk or other business considerations. They recommend two alternatives for implementing direct attribution. For both approaches, the uniqueness of pooling commodities for sale, such as marketing cooperatives, may have to be addressed.
 - All payments would be attributed directly to individuals and subject to the payment limits on individuals. Entities could still qualify for and receive payments. The individual would have to be actively engaged in agriculture for the individual, or the individual's share of an entity, to receive payments. Payments to an entity would be limited by the number of individuals actively engaged in agriculture in the entity. A landowner, as well as trusts, nonprofit organizations, corporations or other entities, that own and share rent land would continue to be considered actively engaged and be eligible to receive payments.
 - All payments would be attributed directly to an individual, but the individual would not have separate limits for payments received directly from the government and from payments received through entities. The existing limits would be combined into one limit per individual.
 - Strengthen the current criteria for determining eligibility of persons for payments to improve program integrity.
5. Payment limits of marketing loan benefits:
- Potential changes must address a fundamental policy choice about who should benefit from farm program payments. The Commission was divided. Some believed we should continue the current nonrecourse marketing loan program. Others believed the payment limit for marketing loan benefits should apply to all four types of marketing loan benefits; LDPs, MLGs, certificate exchange gains and forfeiture gains.

(3)

Article Title: Toward a Global Food and Agriculture Policy

Authors: Task Force of the Leopold Center for Sustainable Agriculture

Article Date: January 2005

Source: Iowa State University <http://www.leopold.iastate.edu/pubs/staff/policy/globalag.pdf>

Category: Income Support

Congress faces three choices on how to proceed in the face of low commodity prices for most of the period since 1996, high levels of budget outlays at the federal level and continuing economic problems on the part of producers. One possibility is to continue the heavy subsidization for the “program” crops that has become the hallmark of the 1996 farm bill. While the \$28 billion plus for the 1999-2000 federal fiscal year was a modest fraction of the country’s food bill, as was \$32 billion in 2000-2001, those figures are large enough to be visible budgetary reduction targets. Even without a change in the direction of farm policy, federal budget realities are likely to force reductions in government expenditures for agriculture in the years ahead. Across-the-board-cuts in all farm program components would be one possibility. Or reductions could be made in more targeted select programs, such as an environmentally related program. Another approach would be to significantly tighten per-person payment limitations. Reducing payment limits is controversial but in our judgment merits serious consideration. The key policy question is whether there is a public interest in allowing government payments to be part of the economic landscape that potentially allows larger operators to influence the land and rental markets to the detriment of smaller operators.

A second possibility would be to reduce—or eliminate—federal subsidies for agriculture. That would likely result in a considerable reduction in land values. A significant portion of the subsidies is being bid into cash rents and capitalized into land values. One cannot justify present land values on the basis of commodity prices existing from 1997 to 2003. If investors were to expect less federal funding—or none at all—land values would likely decline, perhaps by as much as 25 percent. The drop would be severe if withdrawal of subsidies is abrupt. After all, land values are based heavily on expected profitability of the dominant crops in the area plus expected government payments.

The third possibility is to return to the Secretary of Agriculture some of the authorities swept away in the brief period of economic euphoria in 1995-1996. That would enable the Secretary to act as the surrogate CEO of agriculture and to manage inventories as other CEOs do. Many companies occasionally experience excess inventories—Deere, Intel, Boeing, General Motors, indeed virtually every firm in the world. The time-honored solution is to idle both people and productive capacity. Resource idling to reduce supply is a logical response to the fiscal realities of the country which suggest strongly that stabilization of the agricultural sector will have to be accomplished with less federal subsidization. Once that is in place, the available funds must be administered with a firm cap on payments to producers if public support for the program is to be assured.

Of the three choices, the option that is the most attractive from a cost perspective and least likely to cause widespread economic and financial trauma for the agricultural

sector is to fine tune the authorities in the permanent farm legislation and return powers to the Secretary of Agriculture. This would enable the Secretary to function as every CEO of a major corporation does when confronted with overproduction—to reduce output temporarily in accordance with market signals.

The most attractive fine-tuning possibilities include—(1) a farmer-owned food security reserve, (2) an acreage diversion program managed through short- and intermediate-term land idling programs and longer-term acreage reserves, and (3) economically rational price support programs for the major program crops that are responsible for a great deal of the cultivated acreage in the country.

Farmer-owned reserves

Notwithstanding criticism of previous farmer-owned reserve programs, principally on the grounds that such programs blunt price spikes upward when supply is diminished by adverse weather conditions, a farmer-owned reserve program for storable commodities would reduce the frequency and magnitude of price spikes when supply for the major commodities is reduced. Farmers would be eligible to place a portion of their production in on-farm storage in exchange for an annual storage payment when prices are below a threshold level. When price later rises above the threshold level, farmers would have an incentive to sell their commodities in the farmer-owned reserve program. Not only would such a program reduce the amplitude and frequency of price spikes; the program also would provide a cushion for consumers against price increases in years of drought or other factors that reduce supply.

Land idling

As needed to complement the farmer-owned reserve program, the Secretary would have the authority to allow landowners to bid their land into short- and intermediate-term land idling programs or, in the event of very low prices, order mandatory land idling with a payment to the producer. Longer-term land idling of environmentally sensitive farmland, as has been done for nearly 20 years and under an ongoing program in the 2002 farm bill, would serve to reduce water and wind erosion and also to diminish excess productive capacity.

Minimum price supports

In the event of low prices with the potential for disastrous consequences for producers, the program would authorize the establishment of a threshold level of price support with government purchases to augment the farmer-owned reserve program. Ray, Ugarte and Tiller, using the three components outlined above and utilizing a simulation model, calculated that prices for commodities would lead to net farm income levels at or above those expected to be obtained through a continuation of current farm policy but with government payments reduced by \$10 to \$12 billion per year.

(4)

Article Title: A Safety Net for Farm Households AER 788

Authors: Craig Gundersen, Mitchell Morehart, Leslie Whitener, Linda Ghelfi, James Johnson, Kathleen Kassel, Betsey Kuhn, Ashok Mishra, Susan Offutt, and Laura Tiehen

Article Date: October 2000

Source: U.S. Department of Agriculture Economic Research Service

<http://www.google.com/url?sa=U&start=2&q=http://www.ers.usda.gov/publications/aer788/aer788fm.pdf&e=9901>

Category: Income Support

Government assistance to the farm sector provides relatively little to small farms. Instead, most government assistance is to larger farms that receive support through traditional farm program instruments such as crop insurance, direct payments, and environmental conservation programs. This report looks at the issue from a different perspective, one which might reduce government spending and ensure that all full-time farmers receive an income to meet basic needs. Our study applies the concept of a farm household safety net based on a set of standards commonly used in the economics literature and in Federal assistance programs for low- to moderate-income households.

The report considers four safety net scenarios that would assure farm households a certain level of income or consumption:

- Income equal to that of the median nonfarm household in the region.
- Income equal to 185 percent of the poverty line.
- Income equal to the average nonfarm household's annual expenditures.
- Income equal to the median hourly earnings of the nonfarm self-employed (\$10 per hour). The analysis estimates the distribution effects and costs of the four scenarios for two time periods: 1993-97 and 1999-2003.

Current farm programs distributed some type of direct government payment to about 36 percent of all farms in 1997, with payments averaging \$7,987. The share of farms receiving payments ranged from less than 20 percent for very small farms to 75 percent for large farms. Under any of the four safety net scenarios, however, all very small farm households would receive payments and payments per recipient to other small farms would be more than twice as high as under current programs.

Farms in the Northern Crescent (Northeast and Great Lakes areas), the Eastern Uplands (southeastern Appalachian Mountain areas), the Southern Seaboard (Virginia through Alabama, excluding Florida), and the Fruitful Rim (coastal areas in Southeast and West) would all benefit more from the safety net scenarios described here than from current farm programs. Farms in these regions typically produce dairy products, beef, hogs, other field crops, fruits, and vegetables and produce less of the farm program crops than producers in other regions.

We base the four farm safety net scenarios outlined here on the income characteristics of farm households, not on commodities produced by a farm. Thus, lower income farmers are more likely to benefit under these safety net scenarios, while farmers producing selected commodities benefit more from current farm programs. The scenarios considered here are meant to be illustrative. Safety nets may be defined in many different ways, and future research should explore other scenarios and the applicability of the concept to sole proprietors in other occupations. Our findings point out that national policy should recognize the diversity within the farm sector and the need for something other than one-size-fits-all policy prescriptions. A clear understanding of the objectives and intended beneficiaries is an important starting point for discussions of future farm policy.

(5)

Article Title: "A Food and Agricultural Policy for the 21st Century"

Author: Willard W. Cochrane, Professor Emeritus, University of Minnesota

Source: The University of Minnesota/ <http://www.misa.umn.edu/forum/chochrane.html>.

While production surpluses have been a mainstay of the 20th century, other important goals, such as the sustainability of the family farm, have not been as successful. To complicate matters more, the 21st century brings forth new challenges in globalization, industrialization, and biotechnology. Bigness is a continuing problem with respect to the livelihood of family farms and rural communities. In addition, the increased use of contracting, patent rights, and financial controls has created a complicated area of monopolistic competition within the agricultural industry. As a result, Cochrane argues for an active, innovative anti-monopoly division in the Justice Department.

To address the above challenges, Cochrane opposes traditional price and income support programs. He reasons that these programs go mainly to the large, industrialized producers, can lead to only burdensome stocks at unacceptable program costs, and would ultimately be a self-defeating proposition for the U.S. global economy. Some may argue that the modern global economy requires an increase in exports and the minimization of U.S. governmental support. While Cochrane believes that governmental programs should not be abandoned in favor of exportation, he also believes that public policy programs must reflect American agriculture as part of the global economic system. The first significant development is the continuing problem of who should control the use of productive resources, the family farmer or the large corporation. The second significant development is the price-income crisis, of which will ultimately determine if family farmers will remain in business. These developments, combined with a more global emphasis, have set the stage for U.S. agricultural policy development in the 21st century.

The overall goals of American agricultural production have not changed much, according to Cochrane. However, the conditions under which food is produced have. Food production has become a more industrialized business operating under an uncertain, global economy. Cochrane believes that the broad agricultural policy goals for the 21st century should be much the same as those of the past century. Those goals would include the following: 1) the production of a healthful, abundant supply of food, at reasonable prices, for all Americans; 2) maintaining a prosperous and productive economic climate for the commercial farmer producers of that food supply; 3) protecting the remaining small to medium-sized family farms units from disappearing from the face of the earth; and 4) the realization of a high quality of life for all people living in rural areas, together with a vibrant physical environment.

Goal #1: *The production of a healthful, abundant supply of food, at reasonable prices, for all Americans* - Maintain our existing food assistance programs but work substantially on improving the quality of service and food within these programs. Maintain a strong public research program in the U.S. Department of Agriculture and the Colleges of Agriculture across the nation in all aspects of food production, processing, distribution, and human nutrition.

Goal #2: *Maintaining a prosperous and productive economic climate for the commercial farmer producers of that food supply* - Establish a "Food Production Refinancing Agency" to help all farms restructure their debt loads in periods of falling prices. The Food Production Refinancing Agency would also provide guidelines to farm lending institutions. Establish a special disaster program for food producers. This recommendation stems from the prospect of increased weather volatility caused by

global warming. Establish a grain reserve program to help moderate large swings in world grain prices and to help in providing relief supplies to areas of need worldwide.

Goal #3 *Protecting the remaining small to medium-sized family farms units from disappearing from the face of the earth.* - There are three specific recommendations under this goal. First, create a special unit in the Department of Justice to investigate monopolistic actions in the food production and distribution system and to prosecute firms whose actions are deemed harmful to the agricultural sector and national economy. This unit would have expertise in biotechnology and contract farming. Second, establish an annual cash subsidy from \$15,000 to \$25,000 (depending on size of operation) to all family farms. This subsidy would help to offset the competition from larger industrialized farms. Third, bring family farmers into the development phases of national programs as key players. This inclusion may help establish more innovative production and conservation practices and help family farmers become more competitive against the larger farm establishments.

Goal #4: *The realization of a high quality of life for all people living in rural areas, together with a vibrant physical environment.* – Establish new legislation to create a federal program that monitors and regulates factory type operations in the production and processing of poultry, beef, pork and dairy products. The administering agency of this newly established program would have authority over the confinement of birds and animals, the location of such factory type operations, the disposal of the wastes of the animals and birds confined in the factories, and the working conditions of human laborers in the factories. Support an adequate income and safe working conditions for agricultural workers by creating a special unit within the U.S. Department of Agriculture to examine laws and regulations impacting farm workers and to enforce those laws. Maintain the Conservation Reserve Program (CRP) and strengthen its provisions by limiting rental contracts only to low grade cropland, extending the duration of rental contracts to very long periods, and by purchasing land where it can be phased into a sustainable ecological area for different species of plants and wildlife. Establish new legislation to create a new federal agency with responsibility, authority and requisite funding, working with private organizations and state and local authorities to build sustainable ecological areas for different species. The work should be an ongoing effort that builds upon existing federal lands and the purchase of private lands.

Cochrane believes that implementing the above policies would significantly improve America's quality of life. If only some recommendations are used, the full set of recommendations could still serve as a future course of direction for the development of an equitable and effective food and agricultural policy for many years. The policy goals and recommendations are especially significant due to the possibilities for global warming and changing weather patterns. Without these policies in place, Cochrane suggests that opportunities will only be afforded to some and that it is the family farmer who will ultimately pay the price.

(6)

Article Title: "How do U.S. farmers plan for retirement?"

Author: Mishra, Ashok K. and Durst, Ron L.

Date: April 2005

Source: USDA, Economic Research Service – "Amber Waves" Volume 3, Issue 2

Category: Financial/Farmer Retirement and Succession Planning

This article provides an overview of how contemporary farmers save and plan for retirement. The issue of farmer retirement is of particular importance in light of the aging projected shortfall in social security benefits caused in part by the aging baby boom generation, and due to the fact that over one fourth of the principal operators of U.S. farms are retired or are planning to retire in the next five years.

Compared to the overall U.S. workforce, farm operators are substantially older. The authors state that over one fourth of all farmers are age 65 or older, compared with only three percent of the overall labor force. This age statistic can be explained in part by improved health and longevity, combined with technological advances in farming equipment which enable farmers to operate a farm much longer than previous generations.

Farm households tend to have a more diverse financial portfolio than most other U.S. households. Their portfolios tend to have more personal savings and are less dependent upon social security income. While in the general population, social security benefits account for over sixty percent of current social security income, farm operator households, on average, receive only thirteen percent of their total income from social security accounts. Of the farm households that receive social security, they also tend to receive significant amounts of income from their farm activities, pensions, investment earnings, and from other nonfarm assets. Participation in Social Security tends to vary by farm type. Rural residence farms (where farmer reports being retired or has another primary occupation and gross farm sales are less than \$100,000) tend to pay less in self-employment tax and therefore collect smaller amounts of social security from their farming practices. Intermediate (gross farm sales less than \$250,000) and commercial (receive 80 percent or more of their income from farming) are less likely to participate in social security through off-farm employment and instead contribute through their farm operations.

Diversity is a key concept regarding farmer retirement savings. Off-farm income comprises about 90 percent of total farm income and includes income from off-farm businesses, wages and salaries, interest and dividends, and pensions, military retirement, unemployment, social security, and veteran's benefits, etc. On average, farm households have higher wealth (\$590,900) than all U.S. households (\$359,400), but less than all U.S. self-employed households (\$1,258,000). Retiring farm operator households have substantial wealth as well. The authors indicate that the average net worth of farm operators who indicate they will retire in the next five years is about \$45,000 more than the average for all farm households.

While farm households actively save and invest for retirement, only forty percent of them participate in some type of retirement account compared to sixty percent of all U.S. households. As would be expected, participation rates in retirement savings accounts increase with both income and net worth. The median farm

retirement savings is \$12,500. This figure is larger than those of self-employed nonfarm households (\$9,300) and substantially larger than the figure for all U.S. households (\$300).

Over one fourth of all farm operators are retired or plan to retire in the next five years. Of those planning to retire, the average age is 62. Farmers tend to work longer than the average for the general U.S. population in part because tax laws may encourage them to hold onto their land and rent it out for retirement income. The prospect of avoiding capital gains tax on any appreciation prior to death also encourages farmers to hold onto their land. While fewer farmers are covered by employer-sponsored pensions, they tend to save from current income on a regular basis and have accumulated diversified financial portfolios. Higher net worth farms have accumulated less than all U.S. households, but they have accumulated a substantial amount of business equity that can be used as source of potential retirement income to supplement their social security and retirement savings.

(7)
"Choices at the Farm Policy Crossroads"
Timothy Galvin
Draft Paper

Government support should not simply be provided in the form of a check in the mail. Eligible farmers should instead be allowed to apply their payments toward one or more options – a menu of options that offer some public benefits as well. Options like–

1. **Conservation, environmental, or wildlife habitat improvements.** Considerable progress has been made in recent years to reverse the environmental damage done by previous farm policies and instead give priority, in succeeding Farm Bills, to conservation and wildlife habitat improvements. This new federal emphasis has been bolstered by the private efforts of environmental, conservation, wildlife, and sportsmen organizations to support and supplement federal programs. However, the needs continue to outstrip available resources. Farmers and ranchers should be allowed to use some of their federal farm support in partnership with private organizations to further our conservation and wildlife goals.
2. **Health insurance.** Comprehensive family health insurance for a self-employed person (like a farmer) can easily exceed \$6,000 per year. If you're a rancher getting by on \$20,000 a year, that's a large bite out of the family budget. As a result, many farm families are dangerously under insured or simply doing without insurance altogether. In other cases, a farm spouse is taking employment off the farm, often at some distance and at minimum wage, just to gain health care coverage. Even the 100% tax deductibility of health care expenses is of little value if a meager income puts the farmer in a low tax bracket. An American farmer's competitors in Australia and Canada may on the whole receive less government *farm* support, but they do benefit from government sponsored health care, as do farmers in the European Union, who also receive generous farm

- subsidies. Why not allow U.S. farmers, at their option, to apply their federal payment toward, say, 90 percent of the cost of obtaining family health insurance? The general economy and the rural healthcare system would benefit from a healthier, more secure farm population.
3. **Retirement or natural disaster accounts.** Farmers should, but often can't, save for retirement or to guard against that drought, flood, or other natural disaster that lurks each season. Crop Insurance can protect most farmers against the biggest losses, but natural disasters will typically set any farmer back, or drain their retirement account as well. Farmers should be allowed to put some of their savings in a tax-deferred retirement/disaster fund, with a match from the federal government.
 4. **Cooperative producer processing/marketing ventures.** Farmers know that one key to financial survival lies in their ability to claim a larger share of the consumer dollar. That's partly why "farmers' markets," offering direct producer sales to consumers, have flourished in recent years. Similar ideas, like neighboring cattlemen who want to sell their "natural" beef under a local label, or minority farmers who need a distribution facility for their specialty produce, often flounder for lack of modest start-up capital. Farmers should be allowed to pool their federal payments in support of joint processing, marketing, and promotion ventures.
 5. **Any "approved" state program.** States should be encouraged to offer incentives that could be matched with federal money to support priority initiatives in the state. For example, many states have their own farmland preservation programs, but such programs are notoriously oversubscribed. Others offer education and training programs geared toward upgrading a farmer's marketing and other skills. Federal farm support could be used, on a matching basis, to supplement these and other creative state efforts, such as helping farmers to acquire current computer technology and access the Internet. Eligible state programs could be determined by USDA. Some might fault this menu approach, preferring to just send farmers a check, regardless of farm size, and regardless of household income. That, essentially, describes current policy.

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of NE at Lincoln policy specialist, Roy Frederick states he is surprised to see that the average income for these kinds of households is a few thousand dollars more than the average overall farmer operator. <http://usagnet.com/story-national.cfm?id=1207&yr=2003>.

- Smith, K.R. & Lynch, S. 1994. *Lean, mean and green...Designing farm support programs in a new era*. Henry A. Wallace Institute for Alternative Agriculture. This article introduces the concept of “green support programs” (GSPs). According to the authors, GSPs would make environmental protection the principal basis for farm income by providing direction monetary payments to farm operators and owners who voluntarily provide environmental benefits. A market-based approach is used for this program as the authors recommend support fluctuating with market conditions. An analysis over the current forms (as of 1994) of farm income support over GSPs is given. <http://www.winrock.org/wallacecenter/documents/pspr03.pdf>.
- Monke, J. 2003. *Payment limits for farm commodity programs: Issues and proposals*. Congressional Research Service. The article highlights issues and proposal surrounding the payment limits for farm commodities by translating dollar limits to crop acreage levels to see how farmers are affected. The author feels that lower payment limits would be felt most by cotton and rice producers. Addresses geographic location – south and west farms might possibly be affected more by limits due to their large size. The article includes a comparative table showing how different laws affect direct and counter-cyclical programs, and the marketing loan program. <http://bennelson.senate.gov/crs/payment%20limits.pdf>.
- Daniel Sumner and David Hart, UC Davis, "A Measure of Subsidy to California Agriculture" (<http://aic.ucdavis.edu/pub/briefs/brief2.html>) - The total Producer Subsidy Equivalent for California agriculture represents \$2,344 million or about 10.6 percent of total commodity receipts in California. This number may be compared to the PSE from elsewhere. The Organization for Economic Cooperation and Development (OECD) reports for a variety of countries PSEs for 12 field crops and livestock commodities. The national average PSEs range from about 3 percent of agricultural revenue for New Zealand to over 80 percent for Switzerland. Norway, Japan and Iceland all have PSEs over 70 percent. The OECD reports an average percentage PSE of 21 percent of revenue for the United States. Figure for California is lower mainly because we use a broader set of commodities and because subsidy rates tends to be lower for fruits, vegetables and other horticultural commodities that are particularly important in California. On a commodity-by-commodity basis, California percentage PSEs roughly equal those for the US as a whole.
- ◆ Keith Coble, Thomas Knight, George Patrick and Alan Baquet, "Understanding the Economic Factors Influencing Farm Policy Preferences" - research investigates producer preferences for alternative policies. It is based on a statistically stratified sample of 1,812 crop producers in Indiana, Mississippi, Nebraska, and Texas. Fifty-six percent of the sample indicated that they would prefer to go back to the deficiency payment program. Increased insurance subsidies over increased catastrophic coverage is shown to be preferred by 53 percent of the survey respondents. Of the four dependent variables, the lowest level of agreement was indicated for the question asking a preference for

increased loan rates versus an increase in insurance subsidies. Only 42 percent of respondents agreed with this statement. Finally, 54 percent of respondents agreed with increased funding for insurance programs rather than disaster programs.

<http://www.agecon.msstate.edu/riskedu/reports/orlando4.excsun2.PDF>

- ◆ Roy Frederick, U of Nebraska, "Production Costs Important to Farm Policy" - The study focused on 35,000 farms that specialize in wheat production. For analytical purposes, these farms were split into three groups, based on their 1999 production costs. The most financially efficient group of producers covered all their costs. Farms in this group accounted for 35 percent of the farms and more than half of the wheat grown in the study. While this group received close to 50 percent of all government payments, market revenue alone was sufficient to cover all costs for most of them. At the other extreme, the least efficient or highest cost farms recorded costs that were more than half again as large as returns including government payments. Included in this category were 33 percent of the farms but just 14 percent of production. Based on 1999 returns, these farms either had to generate income from other sources or use available equity to meet expenses. This leaves a group in the middle that spent \$1 to \$1.50 per dollar of revenue. Accounting for the remaining 32 percent of production, they are close to being financially viable.
<http://ianrnews.unl.edu/scripts/pdf.cgi?ID=985883307>

III. COUNTER-CYCLICAL POLICIES

The Issue

Counter-cyclical payments serve as a “safety net” for farmers during times of low prices. Recent criticism from the World Trade Organization has resulted in a need to find a new policy that will insure that farm income levels remain at acceptable levels over the course of the commodity business cycle. What this program should look like and the extent to which the government should be involved are two important questions that must be addressed. Furthermore, if the government does remain involved, what is the appropriate mechanism for it to use in order to moderate market swings and at what price or revenue level should counter cyclical action kick in?

Background

Marketing loan provisions were added to the commodity loan program as a way to provide income support without incurring the need for storage programs or for export subsidies. The need for an additional source of income support to supplement marketing loans was perceived by some as a major shortcoming of the 1996 Farm Bill. In order to compensate for this shortcoming, when markets turned down in the late 1990s, Congress attempted to remedy the situation with *ad hoc* payments. Congress created a system of counter cyclical payments in the 2002 Farm Bill which provide producers with income support counter to the cycle of market prices. Counter cyclical payments are only issued if the market price for a commodity is below the government established target price. There are no commodity supply requirements. Some analysts call for a return to supply management to deal with market swings, sometimes using innovative supply control mechanisms like “flex-fallow,” where producers agree to increase set-asides in exchange for higher marketing loan rates, while others propose incentives to use futures and other risk management tools. Another proposal is for Farmer Savings Accounts that would allow farmers to put money aside during favorable market periods and draw down these accounts during less favorable market periods.

Selected Characteristics of Reform

Any proposal for a system of counter-cyclical support should:

1. Provide a “safety net” in unusual market years, rather than a guaranteed annual payment.
2. Be available to a wider set of crops and producers than the traditionally supported commodities and current programs.
3. Have strict payment limitations that control the amount any one individual can receive and limit payments to those who have a substantial role in production.
4. Be means tested to limit payments to producers with substantial off-farm income (NOTE: 2002 Farm Bill includes such a limit but at a very high level). Should there be on-farm income limits as well?
5. Be paid to individuals (human beings), not entities.
6. Be decoupled from annual production decisions to avoid trade distortion and “farming” the programs (Alternatively, you could couple a moderate level of support such as marketing loans do).
7. Support farm incomes, not commodity prices, which tend to become floor prices for world markets
8. Not attempt supply control through expensive commodity storage.
9. Use market-based solutions such as futures markets, hedging, and revenue insurance.
10. Ensure that commodity programs meet all international trade commitments.

Reform Options

Options may:

1. Retain existing programs and “tweak” parameters and rules, such as the target prices, participation rules, and payment limitations. Broaden existing programs to other commodities and farm types.
2. Find a new basis for counter-cyclical payments other than current or historical crop production and price levels (such as a multi-crop price index, limited to long-term average production level).
3. Mainstream the Adjusted Gross Revenue insurance pilots and provide incentives for other market-based risk management measures such as use of futures and hedging, farmer savings accounts, etc. as in the Lugar proposal.
4. Implement a supply control program that limits production (e.g. acreage reduction programs) or implement marketing allotments as is currently done for sugar.

Note: Proposals for reform of income support are not mutually exclusive of proposals for risk management and counter-cyclical programs.

Who Supports It?

1. Supported producers—current recipients of the system
2. Consumers-domestic—beneficiaries of a stable food system
3. Agribusiness-exporters—beneficiaries of a stable production system
4. Agribusiness-input suppliers—beneficiaries of stable production
5. Farm area businesses—beneficiaries of stable farm area income
6. Commodity groups—advocates for their producers
7. Farm lenders—beneficiaries of stability in farm income to repay loans

Who Opposes It?

1. Unsupported producers—not currently recipients, must live with market fluctuations

2. Foreign producers—developed countries—competitors of U.S. producers would prefer U.S. production to decline in low-price periods
3. Foreign producers—less developed countries—often competitors for crops that would not be grown in the U.S. without subsidy (cotton, rice, sugar)
4. The poor and their advocates—oppose business/corporate welfare
5. Taxpayers—oppose unnecessary subsidy of business
6. Fiscal conservatives—oppose agriculture’s contribution to deficits, which can become unpredictably large to counter cycles
7. Enviros—oppose subsidies that expand production and support environmentally unfriendly production practices
8. Small farmers—oppose subsidies that generally benefit larger farms
9. Immigration reformers—oppose policies that divert foreign workers from their domestic agriculture to the U.S.
10. Farm workers and their advocates—oppose subsidies to agricultural producers in favor of subsidies for farm workers
11. Global/free trade advocates—oppose subsidies that distort world agricultural trade

Research Group Suggestions

1. Shift to safety net and CSP-type program
2. Link a significant portion of payments to community benefits with a transition strategy.
3. Eliminate current commodity programs and base safety net payments on farm income.
4. Decouple payments from commodities grown, using historic net farm income to determine base payments
5. Create a better safety net
6. Shift to producer environmental benefits
7. Transition to outcome based conservation programs and actuarially sound revenue-based insurance system
8. Transition to solid risk safety net
9. Shift toward conservation and require recipients to keep farming or maintain option to farm
10. Shift to safety net programs tailored for individual commodities
11. Eliminate direct payments
12. Shift bulk commodity market supports to AGR over time with percent supported by government

Subsidy Replacement:

1. Price supports that replace disaster payments, keeping prices below or at cost of production
2. Shift to CSP type program
3. Replace with true safety net. Producers have to participate in safety net to be eligible for insurance
4. Some version of price supports to help producers survive market crashes.
5. Better safety net with income protection, risk insurance, farmer savings accounts and disaster crop insurance
6. Payments for amenities coupled with comprehensive approach to risk management

7. Outcome based conservation programs and actuarially sound revenue-based insurance system; keep direct payments as bargaining chip to use with other countries to gain market access
8. Solid risk safety net that includes disaster relief and CSP-type conservation program
9. Safety net with enhanced crop insurance that provides some degree of revenue assurance and protection from catastrophic loss and CSP tied to value or crop and/or cost of land
10. Safety net payments that provide income in unusual years, cover crop failures and make up for poor markets plus CSP type program
11. Establish a floor price for commodities (e.g. 1996 Farm Bill).
12. Administer base program nationally with payments reflecting good farming practices, adjustments for capital expenditures/gains and mechanisms to permit new farmers. Enhanced payments based on conservation and community benefits
13. Provide a safety net for all farmers, insuring income for the long term, not crop based, and eliminating disaster payments.
14. Shift insurance away from the whole farm to smaller production units and privatize it.

Outreach Group Suggestions

1. Design and fund programs to help family farmers (\$500,000 gross) that include conservation, environmental and community benefits.

Summaries of Ideas on Counter-cyclical Policies

(1)

Article Title: Directions for Future Farm Policy: the Role of Government in Support of Production Agriculture: Report to the President and Congress

Authors: The Commission on 21st Century Production Agriculture

Article Date: January 2001

Source: <http://www.usda.gov/oce/21st-century/report.pdf>

Category: Income Support / Risk Management / Counter-cyclical Policies

The Commission was established in the 1996 Farm Bill to conduct a comprehensive review of farm policy and recommend changes. They solicited the views of nearly 60 experts and heard testimony from more than 200 farmers, ranchers and other stakeholders representing 30 states. A sampling of recommendations relevant to a 2007 Farm Bill include:

Income Safety Net (Counter-cyclical Payments)

The Commission identified the need to provide a flexible safety net for supporting producer income in times of adverse economic conditions. Their recommended policies included:

- The continuation of a fixed Agricultural Market Transition Act (AMTA) payment consistent with existing baseline budget allocations and the adoption of an additional counter-cyclical income support program. The Supplemental Income Support program (SIS) would provide supplemental payments when aggregate program crop gross income falls below some percentage of the historical income level calculated over a fixed-base reference period. SIS payments would be counter-cyclical in that no payments would be made if aggregate income is above the fixed-base reference level. SIS payments would be decoupled from current prices and yields for any specific commodity and, as such, would be exempt from current commitments on WTO Aggregate Measure of Support expenditures. While the program suggested is expected to apply to major program crops, it could be extended to encompass other commodities.
- Continue the current marketing assistance loan program including loan deficiency payments (LDP) and marketing loan gains, while adjusting marketing loan rates to reflect a closer balance between the historical market value of individual crops. Remove limitations on all government payments to producers.

Risk Management

- Possibly move to an actuarially sound crop/revenue insurance program with products provided by private companies. Under this program, the government would not underwrite a portion of the insurance companies' risk but instead provides farmers with a voucher to offset the cost of insurance premiums.
- Establish a tax preferred savings account such as the Farm and Ranch Risk Management (FARRM) account without restrictions on how long money might be left in the account. The removal of the time restriction on monies in the account would allow the FARRM account to serve both as a cash reserve for low-income years and an alternative retirement fund for the producer. The Commission offered detailed explanations of three different farm savings accounts and how they would work: the Individual Risk Management Account (IRMA), the Farm and

Ranch Risk Management Account (FARRM) and the Net Income Stabilization Account (NISM). They preferred FARRM.

(2)

Article Title: What Will It Take to Change the American Food System?

Authors: Charles Benbrook

Article Date: April 2003

Source: Kellogg Foundation <http://www.biotech-info.net/kellogg.pdf>

Category: Farm Policy General

Dr. Benbrook was asked to reflect on what it would take to change the American food system to make farming sustainable, improve public health and advance resource conservation and environmental quality. His suggestions for reform that could be included in farm legislation include:

1. Reinvigorate public plant breeding with renewed focus on plant health and resistance to pests and pathogens.
2. Diversify cropping patterns through a diverse range of policy initiatives, research and development and infrastructure investments.
3. Base federal farm program payments per acre on the efficiency of nitrogen uptake, coupled with diversity of rotations. For example, farmers using three-year rotations in which 65 percent or more of available N is captured in crops receive at least three times the payment per acre of a farmer using conventional monoculture and N efficiencies under 40 percent.
4. Spread livestock out across the cultivated cropland base to provide a way to economically utilize the forages that will be produced in diversified rotations, to supply manure to enhance soil quality, and diversify farm income streams. Assure that there is an accessible USDA-certified abattoir in every rural county, as one of the many steps needed to spread livestock. The author doesn't provide any other steps on how to accomplish this but notes that the dairy and beef industries must move north and east and poultry and hogs must move west from the Piedmont.
5. Shift acreage in the West from low-value, high-water use crops and pasture to high-value crops and drip or other highly efficient irrigation systems (no suggestions on how to do this)
6. Establish minimally acceptable standards for the efficiency of nutrient uptake (nitrogen and phosphorus) in agronomic crops, pastures and agroforestry as a mandatory component of all nutrient management plans, CAFO permits, cost-share contracts governing manure management and disposal and farm programs.
7. Direct USDA to take whatever steps are needed to assure that at least two-thirds of all undifferentiated commodity crops and livestock are sold in openly competitive markets.

(3)

Article Title: Counter-cyclical Policies: Rethinking U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide

Authors: Darryll E. Ray, Daniel G. De La Torre Ugarte and Kelly J. Tiller

Article Date: 2003

Source: Agricultural Policy Analysis Center, University of Tennessee

Category: Farm Policy General

The authors conclude that U.S. farm policy has been driven by two engines: 1) government investment in research, extension, technology, credit and marketing to assist farmers in agricultural production and 2) government willingness, in later years, to intervene in the marketplace to stabilize prices and ensure farm income. They feel the policy shifts in 1996, abandoning historical market stabilizing tools in favor of “decoupled” programs and trade liberalization, have led to disastrous results: exports are flat, farm income from the marketplace has declined, government payments have skyrocketed and corporate integration of farm assets in ag sectors such as livestock have reached record levels. In response to their concerns, they have developed an illustrative policy blueprint that reapplies supply management tools. It includes a combination of:

1. Acreage diversion through short-term acreage set asides and longer-term acreage reserves. The main objective of annual acreage set-asides is to avoid or to reduce the current tendency toward very low prices by inducing farmers to idle a portion of their working cropland. Production levels could also be managed by the diversion of acreage away from traditional tradable crops and toward a non-food, non-tradable crop, such as a bioenergy-dedicated crop like switchgrass, a perennial grass native to the U.S. with high cellulose content. Longer-term land retirement in the form of a Conservation Reserve Program would serve to curb excess productive capacity. Farmers could select some of the most environmental sensitive cropland and thus ease the environmental burdens caused by farming activities.
2. A farmer-owned food security reserve. A food stock or inventory management reserve program would reduce the occurrence, and modify the size of price spikes for major commodities. In exchange for a storage payment, farmers would enroll a share of their production in an on-farm storage program when prices are below a threshold level. When prices rise, producers would be provided with an incentive to sell their reserves until the price dropped.
3. Other price support mechanisms. Government price supports would be activated through government stock purchases triggered when prices fall below a threshold level, or when set-asides “miss” a low price event.

A simulation model using these tools shows total cropland planted to the eight major U.S. crops drops by 14 million acres in the first year, prices for the major commodities increase between 23 to 30 percent, and new farm income rises while government payments fall by more than \$10 billion per year. They conclude that such “farmer friendly” policies will limit future asset consolidation, reinvigorate farmer investment in agriculture and eliminate global concerns for American commodity dumping. Note that the authors state that current WTO rules do not expressly prohibit the use of the price support and production control policy mechanisms they consider. Instead, WTO commitments place a cap on overall level of payments. They warn that the mechanisms advocated in their blueprint are not in line with mainstream trade liberalization thinking.

(4)

Article Title: Report of the Commission on the Application of Payment Limitations for Agriculture
Authors: Commission on the Application of Payment Limitations for Agriculture
Article Date: August 2003
Source: <http://www.usda.gov/oce/oce/Document%20Archive/payments/payment-commission.htm>
Category: Income Support / Risk Management / Counter-cyclical Policies

The Commission was established by the 2002 Farm Bill to study the potential impacts of further payment limitations on direct, counter-cyclical and marketing assistance loan payments on farm income, land values, rural communities, agribusiness infrastructure, planting decisions of producers affected, and supply and prices of covered and other agricultural commodities.

They concluded that acreage and price effects are likely to be greatest in the short term. Over time, producers affected by further payment limitations are likely to adjust their operations accordingly.

Recommendations include:

Timing of changes in levels and application of payment limits:

1. Any substantial changes should take place with the reauthorization of the 2007 Farm Bill. The 2002 Farm Bill establishes farm payment programs, including payment limits, through the 2007 crop year and producers, their lenders and other agribusiness firms make long-term investments based on this multi-year legislation.
2. If substantial changes are made, there should be an adequate phase-in period. This will help avoid unnecessary disruptions in production, marketing and business organization, including landowner-tenant lease arrangement.

General Administration of payment limits:

1. More resources should be allocated for payment limit administration in USDA's Farm Service Agency (FSA) and Office of Inspector General (OIG). More resources could augment current efforts to train staff on payment limits and monitor compliance and enforcement. Consider developing a system of graduated penalties for intentional violations of regulations that would make the penalty commensurate with the degree of the infraction.
2. Payment eligibility and limitation statutes and regulations should not create incentives that lead producers to choose one form of business organization over another.
3. Payment eligibility and limitation statutes and regulations should not cause producers to take on production and marketing risks that they would not otherwise undertake. Share-lease arrangements are important risk-sharing mechanisms for producers.
4. Efforts to change payment limit policies should strive to make the policies meaningful, transparent and simple.
5. Changes in payment limits should be sensitive to differences in commodities, regions and existing agribusiness infrastructure.

Need for additional information

1. USDA should provide more complete data on farm program benefits. There is no direct information available on how farms would be affected by further payment limitations. USDA also needs to implement section 1614 of the 2002 Act, which requires tracking of benefits provided directly or indirectly to individuals and entities.
2. Develop and analyze alternative ways of addressing payment limits, eligibility and limit implementation. Changes in payment limits should not be made without an understanding of the costs and benefits of the change.

Payment limit implementation and eligibility requirements:

- Attribute payments directly to individuals (human beings) to improve program transparency, administration and farm business efficiency. Currently, payments are attributed to persons, which may be individuals or entities, such as corporations. Differential treatment of the various forms of business organizations creates incentives for producers to choose business organizations based on payments rather than risk or other business considerations. They recommend two alternatives for implementing direct attribution. For both approaches, the uniqueness of pooling commodities for sale, such as marketing cooperatives, may have to be addressed.
 - All payments would be attributed directly to individuals and subject to the payment limits on individuals. Entities could still qualify for and receive payments. The individual would have to be actively engaged in agriculture for the individual, or the individual's share of an entity, to receive payments. Payments to an entity would be limited by the number of individuals actively engaged in agriculture in the entity. A landowner, as well as trusts, nonprofit organizations, corporations or other entities, that own and share rent land would continue to be considered actively engaged and be eligible to receive payments.
 - All payments would be attributed directly to an individual, but the individual would not have separate limits for payments received directly from the government and from payments received through entities. The existing limits would be combined into one limit per individual.
- Strengthen the current criteria for determining eligibility of persons for payments to improve program integrity.

Payment limits of marketing loan benefits:

1. Potential changes must address a fundamental policy choice about who should benefit from farm program payments. The Commission was divided. Some believed we should continue the current nonrecourse marketing loan program. Others believed the payment limit for marketing loan benefits should apply to all four types of marketing loan benefits; LDPs, MLGs, certificate exchange gains and forfeiture gains.

(5)

Article Title: "Construction of a 'Green Box' Countercyclical Program"
Authors: Bruce A. Babcock and Chad E. Hart
Article Date: October, 2001
Source: Center for Agriculture and Rural Development, Iowa State U.
Category: Counter-cyclical Policies

This article presents an alternative green-box payment policy that is countercyclical to agricultural factors, such as weather, timing and size of payments. As U.S. farm policy has been criticized for being inconsistent with U.S. trade policy, the author's proposal is especially significant because it provides a model that could replace the Agricultural Market Transition Assistance (AMTA) payments (fixed decoupled payments) and because it provides an alternative that is non-trade distorting. The authors emphasize that many other approaches could be viable. In addition, an estimate of the model cost is provided.

The model's construction begins with the creation of a green-box index. Using a linear function, the green-box index is constructed by making the index a function of variables that are important to agriculture. The index is defined as; $I = x + B_1X_1 + B_2X_2$. In this model, x is held constant, X_1 and X_2 are the "included variables", and B_1 and B_2 show how changes in the included variables change the index. Since the WTO agreement specifies what may be classified as a green-box payment, and therefore specifies which agricultural payments are not subject to spending limits or constraints, the authors of this article contend that it is important to pay particular attention to how the WTO defines green-box payments. For example, because there is ambiguity within the verbiage under Subsections b and c, which define green-box payments, the authors believe that a key issue is in how one defines "related". If related to means that revenue has a relationship to price and yield, then payments based on weather and exchange rates would be green-box. On the other hand, if related to means that weather has a relationship to production, then payments would not be considered green-box.

The authors include several figures which show index values that would have occurred from the years 1975 to 2001 had the alternative model been used. Overall, the figures show that the index does respond to variations in weather variables and the exchange rate. Specifically, all figures in the article demonstrated that there was some decline in recent years because of the strong dollar. Likewise, the course grains index shows that drought or flood in the Corn Belt results in decline and another figure of the model shows how droughts in Texas and Mississippi have affected the cotton index. However, it is important to note that since the aggregate index can miss regional disasters, it is still similar to other countercyclical program based on national triggers because regional disasters may not trigger payments.

Implementation of the alternative model requires the determination of the values of the index trigger, or I^* , and the max payment per dollar units. Increases in the index trigger level increase the frequency of the payments to be made. The combination of I^* and the max payment determine the size of the program payments and the aggregate program cost. Total program cost is determined by the probability distribution of the variables used to construct the index together with I^* , max payment, and a selected payment base. The program cost is also dependent on identifying restrictions used to construct the index.

(6)

Article Title: "Farmer Savings Accounts"

Authors: Mark A. Edelman, James D. Monke, Ron Durst

Article Date: Not cited

Source: Iowa State University & USDA Economic Research Service

Category: Counter-cyclical Policies

This paper outlines six policy alternatives and consequences relative to various farmers' savings incentives, and discusses how these savings plans can help farmers in playing a role in future farm policy. Option one is the Canadian-styled Net Income Savings (NISA) plan. With this option, a farmer receives a government matching deposit up to three percent of Eligible Net Sales (ENS) less the purchases of seed, plants, and livestock. The Canadian Government also pays a 3 percent interest rate bonus over local bank rates on all farmer deposits. Participation in NISA is voluntary. A significant probable consequence of option one, according to the authors, is that government spending could become more stable and predictable because spending for matching deposits is spread out over several years.

Option two is the Farm and Ranch Risk Management Accounts (FARRM). With these accounts, deferred taxes serve as an incentive for farmers to save. The FARRM account is different from the NISA account in that there are no price or income triggers. A major probable consequence of the FARRM account is that there would be maximum flexibility, but no assurance that savings would be used as a safety net.

Option three is the Individual Risk Management Account (IRMA). IRMA accounts contain a combination of deferred tax and government matching deposit incentives. Farmers must contribute a minimum of two percent of the Schedule F gross farm income each year. The federal government then matches the farmer's contribution with another two percent taken from money that would have been used to subsidize the farmer's crop insurance. A probable consequence of the IRMA account is that farmer participation and safety accumulation rates are likely to be higher than FARRM and NISA accounts because of the magnitude of the incentives to save under the IRMA account.

Option four is the Farm Program Payment Reserve Account (FPPR). Under this option, AMTA or other program payments could be linked and diverted to farmer savings accounts to build an individual safety net reserve. FPPR accounts, similar to NISA, could be capped at 150 percent of the farmer's five-year average Schedule F gross farm income. A significant probable consequence of this option is that it could open up risk management to all farming activities reported on Schedule F.

The fifth policy option, according to the authors, could be a combination of options. This combination of options could represent a compromise of the four options mentioned above and/or new proposals. A compromise ultimately will depend on the answer to the question; what are the intended goals of the savings accounts in relation to farm policy?

A sixth option could entail maintaining the status quo. This option would mean that additional incentives beyond what is already being provided to farmers would not be provided. The sixth option may provide for greater administrative ease relative to the notion that some people think that farmers do not need additional incentives because

they already have private sector tools and many public risk management programs at their disposal.

To conclude, the authors suggest that two important benefits to rural communities could come about as a result of the use of one or more of the above policy options. First, greater deposits in rural financial institutions may result in more stable, family consumption expenditures during variable economic times. Second, greater rural deposits may result in a greater level of rural lending.

Other References on Counter-cyclical Policies

- Price supports—pre-1985 farm policy, Edwin Young, Paul Westcott, Ann Effland, ERS, "Farm and commodity policy: program effects on acreage and price response", J.D. McDonald and D.A. Sumner, "Influence of Commodity Programs on Acreage Response to Market Price"
- Chad Hart and Bruce Babcock, ISU, "Effects of Adding a Target Revenue Program and Soybean Fixed Decoupled Payments to Current Farm Programs" - Provides a one-year forward-looking analysis of a revenue countercyclical farm program. The basis for the revenue countercyclical farm program originates from the National Corn Growers Association's (NCGA) farm bill proposal. We explore several options under this program. The options consist of various crop loan rate levels for corn and soybeans. The amount and distribution of payments to producers under the various NCGA options and the Agricultural Act of 2001 (House Resolution 2646) are examined and compared against expected payments under the current array of farm programs.
<http://www.card.iastate.edu/publications/DBS/PDFFiles/01bp35.pdf>
- Paul Westcott and Edwin Young, "Influences of Decoupled Farm Programs on Agricultural Production" - No program appears to be completely decoupled from potential impacts on agricultural production. To the extent that production is affected by decoupled payments, these agricultural programs have additional market effects on prices, domestic use, and exports. However, increased production resulting from programs will tend to lower market prices, and these price declines, along with planting flexibility provided by the 1996 farm act, can moderate some of the initial increase in production. Nonetheless, the net change is for an increase in production as a result of decoupled payments.
<http://cnas.tamu.edu/publications/powerpoint/Westcott.ppt>
- Supply control—Daryll Ray, Daniel dela Torre Ugarte, and Kelly Tiller, UT "Rethinking US Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide", Larry Mitchell and John Dittrich, "Price, supply management key to healthy agriculture, rural economy" Policy blueprint combines short-term acreage set asides, longer term acreage reserves, a farmer-owned food security reserve and price supports when prices fall below a set level. Modeling shows acres of commodity crops drop by 14 million, prices increase and government payments are reduced by \$10-12 billion/yr.
<http://www.inmotionmagazine.com/ra03/APAC.pdf>

- A Safety Net for Farmers—A Safety Net for Farm Households, AER-788, October 2000 - report examines four scenarios for government assistance to agriculture based on the concept of ensuring some minimum standard of living. Lower income farmers would benefit relatively more from the safety net scenarios, while farmers producing selected commodities benefit relatively more from current farm programs. Farm households in the Northern Crescent, the Eastern Uplands, the Southern Seaboard, and the Fruitful Rim all would generally receive a higher level and a greater proportion of benefits than under current programs. A clear understanding of objectives and intended beneficiaries must be the starting point for discussions of future farm policy. - <http://www.ers.usda.gov/publications/aer788/aer788.pdf>
- Disasters: Domestic and International—Lugar, S.1571 - Farm and Ranch Equity Act of 2001 - Amends specified Acts to extend and revise agricultural and related programs to encourage producers to select strategies for managing risk in the farming or ranching operation of the producer by providing financial assistance that can be applied to the risk management strategy that the producer believes best addresses the unique financial, business, and agricultural conditions of the farm or ranch of the producer; and to provide new programs allow producers to address the risk management strategies that best suit the farming or ranching operation of the producer; and do not distort commercial markets and are consistent with international obligations of the United States.
- Farmer Savings Accounts--Canadian-styled Net Income Savings Accounts (NISA), Farm and Ranch Risk Management (FARRM) Accounts, Individual Risk Management Accounts (IRMA), Farm Program Payment Reserve (FPPR) Accounts
- Farm Foundation, The 2002 Farm Bill: Issues and Alternatives (2002) Conference Highlights - Luther Tweeten stated that U.S. farm commodity program liberalization compatible with unilateral trade liberalization featuring a shift to recourse commodity loans and an end to crop insurance subsidies beyond administrative costs could add \$10 billion or more to annual farm receipts. Tweeten believes that the unintended consequence of stabilizing prices “counter-cyclically” could be to increase variation in gross and net farm income as well as to provide incentives for excessive output and thereby a return to supply management. - <http://www.farmfoundation.org/projects/02-31.pdf>
- Kenneth Hanson and Agapi Somwaru, GTAP, "Distributional Effects of US Farm Commodity Programs" - A comparison of the distributional results between two scenarios illustrates the relative impact of coupled versus decoupled farm commodity programs on household well-being and on their labor market participation. In both scenarios the same total amount of program payments are removed (\$11,200 million). In scenario-1, countercyclical payments are treated as decoupled, while in scenario-2 they are treated as a coupled payment. Net income is our measure of household well-being. The loss in net income for farm households is larger by \$540 million under scenario-1. For the non-farm households the gains in net income from removing the programs are larger by \$260 million under scenario-1. For all households, the increase in net income from removal of the programs is smaller by \$280 million in scenario-1. Conducting the scenarios in reverse, that is, adding farm commodity programs to a model that initially excludes them, the results from our analysis suggest that

decoupled payments are of greater benefit to farm households than coupled payments, but that decoupled payments cost the non-farm households more than coupled payments. The net result for all households is that the use of farm commodity programs as a means of redistribution has a social cost, which is \$280 million less with greater use of decoupled payments (scenario-1). Among farm households, the distribution of the impact on net income follows the distribution of program payments that were removed in both scenarios. The distribution of off-farm labor supply response is also similar under the two scenarios. The driving force for these similar results is the identical loss of transfer income. A difference in the distributional impacts among farm households occurs with their on-farm labor supply response. All farm household types reduce their on-farm labor supply in response to the removal of the larger coupled payments in scenario-2. When counter-cyclical payments are treated as decoupled (scenario-1), the three largest farm household types increase their on-farm labor supply, while the other farm household types decrease their on-farm labor supply. Under scenario-1 there is less reduction in total on-farm labor supply compared to scenario-2, and there is some shifting of on-farm labor supply into alternative farm production activities such as livestock, which allows for the small increase in on-farm labor supply by the three largest farm household types.

<http://www.ecostat.unical.it/2003agtradeconf/Contributed%20papers/Hanson%20and%20Somwaru.pdf>

- Lonnie Vandever, et. al, "Financial Implications of a New Farm Policy Environment" - FAIR Act program changes are likely to affect not only farm incomes, but also farm capital asset markets. The combined effect of these two financial variables is expected to alter the risk position and the debt repayment capacity on farms. Empirical results of this analysis indicate that the absence of farm income support payments reduces debt repayment capacity and increases the risk position on a representative Louisiana cotton-soybean farm.
<http://www.agecon.uqa.edu/~jab/Library/F00-01.pdf>
- Kelly Tiller and Jennifer Brown, UT, 2002, "Impacts of Farm Policy Alternatives on Two Representative Tennessee Cotton Farms" - Simulations are conducted for each of the two policy alternatives (House and Senate versions of the 2002 Farm Bill) and compared to the baseline scenario. H.R. 2646 continues fixed, decoupled payments, expanded to include soybeans and oilseeds, as well as continuing LDPs and marketing loans. The House proposal adds new counter-cyclical payments (variable AMTA) based on target prices and base acres. It covers commodities not included in the 1996 Farm Bill, expands conservation programs, and is projected to cost \$168 billion over 10 years. The Senate proposal adds a new counter-cyclical subsidy program, and has a 3 tiered payment plan for conservation practices. This bill doubles conservation spending with a cap of \$50,000 per farm per year. S. 1731 includes a renewable energy title. The commodity income protection component includes fixed decoupled payments, counter-cyclical payments based on target prices, and marketing loans. It is projected to cost \$170 billion over 10 years. The financial position of both the large and moderate cotton farms improves considerably under both the H.R. 2646 and S. 1731 policy scenarios. The primary cause of the rightward shift in net farm income over the baseline is the influx of government payments.
<http://apacweb.ag.utk.edu/ppap/pdf/02/burley02.pdf>

- Robert Wisner, ISU, "Corn and Soybean Counter-cyclical Payments in the Farm Security and Rural Investment Acts of 2002" - background information on the differences between the counter-cyclical payments of the 2002 Farm Bill and the old Deficiency Payment system in pre-1996 federal farm programs.
<http://www.econ.iastate.edu/faculty/wisner/UnderstandingCountercyclicalpayments.pdf>

IV. RISK MANAGEMENT

The Issue

The problems facing agriculture today are not crises, but are the ongoing problems of managing business risk. Depression-era emergency programs should give way to programs that help farmers better manage business risk including fluctuations associated with production (drought, flood, hail, disease, etc.) and with markets (price). Some would argue this also means that those choosing to farm in places that are either risky from a production standpoint (drought or flood prone land), or from an environmental standpoint (high runoff or recharge areas) should have to bear the full consequences of those decisions. How do we develop a risk management strategy for farmers that provides a safety net while keeping costs low over the long term?

Background

A major reform proposal put forth by Senator Lugar (S. 1571) in the 2002 debate would have phased out 1996 Farm Bill provisions and replaced them with incentives to adopt risk management practices such as crop or revenue insurance, futures, options, cash forward or hedging contracts on their crops, whole farm revenue insurance, or risk management stabilization savings accounts. This followed Lugar's attempts to reform crop insurance by encouraging producers to select strategies for managing risk in the farming or ranching operation of the producer by providing financial assistance that best addresses the unique financial, business, and agricultural conditions of the farm or ranch of the producer, which was voted down in favor of more conventional reforms in the Agricultural Risk Protection Act of 2000 (ARPA). The ARPA raised premium subsidies with the goal of increasing insurance participation and encouraging use of higher coverage levels. ARPA also gave revenue insurance the same premium subsidy rates as yield insurance, which should encourage a shift toward more revenue coverage. Lugar's farm bill incorporated a variety of Farmer Savings Accounts and also addressed the issue of farming in environmentally risky places. Fundamental reforms to the conventional crop insurance system, such as those proposed by academics studying these programs remain to be accomplished.

Selected Characteristics of Reform

Any risk management proposals would ideally have the following characteristics:

1. Provide a “safety net” in unusual market years, rather than a guaranteed annual payment
2. Be available to a broad set of crops and producers
3. Be actuarially sound, meaning that premiums cover all indemnities over the long-term (The question is really about the actuarial nature of agricultural risks. That is, are major weather events such as floods or drought sufficiently dispersed throughout the insured population that in most years indemnities are a reasonably small proportion of liabilities. Are agricultural risks more like house fires, which are insurable, or like war, which isn’t?)
4. Only subsidize farmers’ premium costs rather than insurers’ costs (reinsurance)
5. Means test subsidies on premiums to limit subsidies to producers with substantial off-farm income. Should on-farm income be included as well?
6. Be directly related to production decisions, including decisions about what crops to plant, and where and when to plant them (note that this is the exact opposite of a desirable characteristic for income and counter-cyclical support programs)
7. Use market-based solutions such as futures markets, hedging, and revenue insurance.

Reform Options

1. Retain existing crop insurance programs and “tweak” parameters and rules, such as premium subsidy vouchers and rates, reimbursement of agent expenses, and reinsurance, to make them less distorting.
2. Mainstream the Adjusted Gross Revenue insurance pilots and provide incentives for other market-based risk management measures such as use of futures and hedging, farmer savings accounts, etc. as in Lugar proposal.
3. Scrap existing insurance premium subsidy and reinsurance system in favor of vouchers or payments to farmers for crop insurance premiums, costs of using futures and hedging (broker fees), and interest subsidies on farmer savings accounts.

Note: Proposals for reform of income support are not mutually exclusive of proposals for risk management and counter-cyclical programs.

Who Supports It?

1. Supported producers
2. Unsupported producers
3. Foreign producers—developed countries
4. Foreign producers—less developed countries
5. Sustainable agriculture
6. Taxpayers
7. Fiscal conservatives
8. Enviro
9. Small farmers
10. Global/free trade advocates

Who Opposes It?

1. Agribusiness-exporters

2. Agribusiness-input suppliers
3. Farm area businesses
4. Commodity groups
5. Farm lenders
6. Crop insurance industry

Research Group Suggestions

1. Expand revenue insurance
2. Individualized AGR and subsidized premiums
3. Price supports that replace disaster payments
4. Optional risk management insurance with income averaging and revenue insurance program with premiums adjusted according to risk
5. Crop and disaster insurance
6. Better safety net with income protection, risk insurance, farmer savings accounts and disaster crop insurance
7. Comprehensive approach to risk management
8. Actuarially sound revenue-based insurance system
9. Solid risk safety net that includes disaster relief
10. Enhanced crop insurance that provides some degree of revenue assurance and protection from catastrophic loss for everyone
11. Safety net payments that provide income in unusual years, cover crop failures and make up for poor markets plus CSP type program. Farm viability plans required.
12. Scrap crop insurance and put funds into a rainy day/voucher account.
13. Shift insurance away from the whole farm to smaller production units.
14. Provide crop insurance products that hedge downside risk.

Outreach Group Suggestions

1. NAP for non-insured – broaden to provide adequate safety net.
2. Increase cap on crop production loans to a minimum of \$300,000.
3. Shift disaster payments to subsidized risk management insurance products to allow for affordable, meaningful insurance products.
4. Reframe this discussion beyond AGR; use Northeast region to promote changes - 50% loss requirement is too high. Change to allow producers to purchase levels of insurance.
5. Original specialty crop bill included “emergency” funds – maybe this could be used as a state “firewall.”

Summaries of Ideas on Risk Management

(1)

Article Title: Why Hasn't Crop Insurance Eliminated Disaster Insurance?

Author: Robert Dismukes and Joseph Glauber. Amber Wavers, ERS

Date: 2005

As the riskiness of crop production, its effects on income, and farmers' ability to bear risk differ from farm to farm, so does the usefulness of crop insurance. In addition to crop insurance, farmers use other means to manage crop production risks, including irrigation, crop diversification, and drawing on savings or borrowing. Producers' perceptions of the relative costs and effectiveness of alternative risk management strategies may lead to different conclusions about the optimal level of insurance coverage.

Can Crop Insurance Replace *Ad Hoc* Disaster Assistance?

Currently, crop insurance participation—defined as insured acres as a percent of planted acres—is about 80 percent. Coverage levels at which producers are insuring are generally high. But coverage levels continue to be low in some regions and for some crops. Thus, while most U.S. crop production is insured, pockets of inadequate protection raise the prospect of ad hoc disaster assistance. Drought has been the source of the largest share of crop insurance indemnities. From 1989 to 2004, drought was listed as the primary cause of loss for about 40 percent of indemnities. Excessive moisture, rain, or flood accounted for about 30 percent, followed by frost, freeze or cold weather, and hail, each of which accounted for about 10 percent of indemnities.

Does crop insurance need to be strengthened for it to be the primary form of disaster aid to farmers and ranchers? The use of premium subsidies to encourage insurance participation and to raise coverage levels is costly. Additional subsidies are not likely to boost participation in large areas of the U.S. where it is already high. The Bush Administration's proposal would mandate participation by linking it to other farm program benefits. This requirement would likely bring more acres into the crop insurance program. However, cuts in subsidies may lead some producers to reduce their coverage levels. In the end, whether participation and coverage would be adequate to forestall future ad hoc disaster assistance legislation will depend on perceptions of coverage, the fiscal environment, and the political decisions of Congress and the Administration.

(2)

Title: How Do U.S. Farmers Plan for Retirement?

Authors: Misha, Durst and El-Osta. Amber Waves

Date: April 2005

Farmers Approaching Retirement Hold Onto Land

Retired and retiring farm operators account for over a fourth of the principal operators of U.S. farm businesses. Their succession decisions and retirement plans are of considerable importance to the farming community and the future structure of

agriculture. Continuity of the family farm and the family farm sector is highly dependent on successful intergenerational transfer following the retirement of a farm operator. Intergenerational succession is especially pertinent for farmers who are planning to retire within the next 5 years. Of those operators planning to retire from farming, the average age is 62. In contemplating retirement from farming, farm households must consider the future of the farm. Tax laws may encourage older farmers to hold onto their land and rent it out for retirement income. Despite reduced tax rates on capital gains associated with the appreciation in farmland values, the prospect of avoiding capital gains taxes on any appreciation prior to death continues to encourage farmland owners to hold the land. Recent changes in Federal estate tax policies that allow larger amounts of property to be transferred at death free of any estate tax further reinforce this incentive. Among farm operators who plan to retire from farming in the next 5 years, about a fifth report that they plan to rent out the farm, and another fifth plan to sell the farm. The remaining operators plan to turn over operations to others or convert their land to other uses. A substantial portion of the 87 million acres owned by the 42 percent of operators planning to either rent or sell their land will likely become available in farmland markets in the next few years.

Farmers Are Ready for Retirement

Farmers, like other employees and business owners, participate in and are eligible for benefits under the social security system. The levels of benefits to farm households are only slightly less than those for all other U.S. households. In addition, since many farmers remain active in farming well beyond retirement age, older farmers have income from a wide variety of sources and, as a result, fewer are dependent primarily upon social security for their financial well-being. While fewer farm operators are covered by employer-sponsored pensions than are nonfarmers, a majority of farm operators save from current income on a regular basis and have accumulated diversified financial portfolios, including individual retirement savings. This is especially true for lower net worth farm households that have saved more than lower net worth nonfarm households. While higher net worth farm households have accumulated less retirement savings than all U.S. households, as a group these farm operators have accumulated substantial business equity that can be a potential source of retirement income to supplement social security and retirement savings.

(3)

Article Title: Directions for Future Farm Policy: the Role of Government in Support of Production Agriculture: Report to the President and Congress

Authors: The Commission on 21st Century Production Agriculture

Article Date: January 2001

Source: <http://www.usda.gov/oce/21st-century/report.pdf>

Category: Income Support / Risk Management / Counter-cyclical Policies

The Commission was established in the 1996 Farm Bill to conduct a comprehensive review of farm policy and recommend changes. They solicited the views of nearly 60 experts and heard testimony from more than 200 farmers, ranchers and other stakeholders representing 30 states. A sampling of recommendations relevant to a 2007 Farm Bill include:

Income Safety Net (Counter-cyclical Payments)

The Commission identified the need to provide a flexible safety net for supporting producer income in times of adverse economic conditions. Their recommended policies included:

- The continuation of a fixed Agricultural market Transition Act (AMTA) payment consistent with existing baseline budget allocations and the adoption of an additional counter-cyclical income support program. The Supplemental Income Support program (SIS) would provide supplemental payments when aggregate program crop gross income falls below some percentage of the historical income level calculated over a fixed-base reference period. SIS payments would be counter-cyclical in that no payments would be made if aggregate income is above the fixed-base reference level. SIS payments would be decoupled from current prices and yields for any specific commodity and, as such, would be exempt from current commitments on WTO Aggregate Measure of Support expenditures. While the program suggested is expected to apply to major program crops, it could be extended to encompass other commodities.
- Continue the current marketing assistance loan program including loan deficiency payments (LDP) and marketing loan gains, while adjusting marketing loan rates to reflect a closer balance between the historical market value of individual crops. Remove limitations on all government payments to producers.

Risk Management

- Possibly move to an actuarially sound crop/revenue insurance program with products provided by private companies. Under this program, the government would not underwrite a portion of the insurance companies' risk but instead provides farmers with a voucher to offset the cost of insurance premiums.
- Establish a tax preferred savings account such as the Farm and Ranch Risk Management (FARRM) account without restrictions on how long money may be left in the account. The removal of the time restriction on monies in the account would allow the FARRM account to serve both as a cash reserve for low-income years and an alternative retirement fund for the producer. The Commission offered detailed explanations of three different farm savings accounts and how they would work: the Individual Risk Management Account (IRMA), the Farm and Ranch Risk Management Account (FARRM) and the Net Income Stabilization Account (NISM). They preferred FARRM.

(4)

Article Title: What Will It Take to Change the American Food System?

Authors: Charles Benbrook

Article Date: April 2003

Source: Kellogg Foundation <http://www.biotech-info.net/kellogg.pdf>

Category: Farm Policy General

Dr. Benbrook was asked to reflect on what it would take to change the American food system to make farming sustainable, improve public health and advance resource conservation and environmental quality. His suggestions for reform that could be included in farm legislation include:

1. Reinvigorate public plant breeding with renewed focus on plant health and resistance to pests and pathogens.
2. Diversify cropping patterns through a diverse range of policy initiatives, research and development and infrastructure investments.
3. Base federal farm program payments per acre on the efficiency of nitrogen uptake, coupled with diversity of rotations. For example, farmers using three-year rotations in which 65 percent or more of available N is captured in crops receive at least three times the payment per acre of a farmer using conventional monoculture and N efficiencies under 40 percent.
4. Spread livestock out across the cultivated cropland base to provide a way to economically utilize the forages that will be produced in diversified rotations, to supply manure to enhance soil quality, and diversify farm income streams. Assure that there is an accessible USDA-certified abattoir in every rural county, as one of the many steps needed to spread livestock. The author doesn't provide any other steps on how to accomplish this but notes that the dairy and beef industries must move north and east and poultry and hogs must move west from the Piedmont.
5. Shift acreage in the West from low-value, high-water use crops and pasture to high-value crops and drip or other highly efficient irrigation systems (no suggestions on how to do this)
6. Establish minimally acceptable standards for the efficiency of nutrient uptake (nitrogen and phosphorus) in agronomic crops, pastures and agroforestry as a mandatory component of all nutrient management plans, CAFO permits, cost-share contracts governing manure management and disposal and farm programs.
7. Direct USDA to take whatever steps are needed to assure that at least two-thirds of all undifferentiated commodity crops and livestock are sold in openly competitive markets.

(5)

Article Title: Counter-cyclical Policies: Rethinking U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide

Authors: Darryll E. Ray, Daniel G. De La Torre Ugarte and Kelly J. Tiller

Article Date: 2003

Source: Agricultural Policy Analysis Center, University of Tennessee

Category: Farm Policy General

The authors conclude that U.S. farm policy has been driven by two engines: 1) government investment in research, extension, technology, credit and marketing to assist farmers in agricultural production and 2) government willingness, in later years, to intervene in the marketplace to stabilize prices and ensure farm income. They feel the policy shifts in 1996, abandoning historical market stabilizing tools in favor of "decoupled" programs and trade liberalization, have led to disastrous results: exports are flat, farm income from the marketplace has declined, government payments have skyrocketed and corporate integration of farm assets in ag sectors such as livestock have reached record levels. In response to their concerns, they have developed an illustrative policy blueprint that reapplies supply management tools. It includes a combination of:

- Acreage diversion through short-term acreage set asides and longer-term acreage reserves. The main objective of annual acreage set-asides is to avoid or to reduce the current tendency toward very low prices by inducing farmers to idle a portion of their working cropland. Production levels could also be managed by the diversion of acreage away from traditional tradable crops and toward a non-food, non-tradable crop, such as a bioenergy-dedicated crop like switchgrass, a perennial grass native to the U.S. with high cellulose content. Longer-term land retirement in the form of a Conservation Reserve Program would serve to curb excess productive capacity. Farmers could select some of the most environmental sensitive cropland and thus ease the environmental burdens caused by farming activities.
- A farmer-owned food security reserve. A food stock or inventory management reserve program would reduce the occurrence, and modify the size of price spikes for major commodities. In exchange for a storage payment, farmers would enroll a share of their production in an on-farm storage program when prices are below a threshold level. When prices rise, producers would be provided with an incentive to sell their reserves until the price dropped.
- Other price support mechanisms. Government price supports would be activated through government stock purchases triggered when prices fall below a threshold level, or when set-asides “miss” a low price event.

A simulation model using these tools shows total cropland planted to the eight major U.S. crops drops by 14 million acres in the first year, prices for the major commodities increase between 23 to 30 percent, and new farm income rises while government payments fall by more than \$10 billion per year. They conclude that such “farmer friendly” policies will limit future asset consolidation, reinvigorate farmer investment in agriculture and eliminate global concerns for American commodity dumping. Note that the authors state that current WTO rules do not expressly prohibit the use of the price support and production control policy mechanisms they consider. Instead, WTO commitments place a cap on overall level of payments. They warn that the mechanisms advocated in their blueprint are not in line with mainstream trade liberalization thinking.

(6)

Article Title: Report of the Commission on the Application of Payment Limitations for Agriculture
 Authors: Commission on the Application of Payment Limitations for Agriculture
 Article Date: August 2003
 Source: <http://www.usda.gov/oce/oce/Document%20Archive/payments/payment-commission.htm>
 Category: Income Support / Risk Management / Counter-cyclical Policies

The Commission was established by the 2002 Farm Bill to study the potential impacts of further payment limitations on direct, counter-cyclical and marketing assistance loan payments on farm income, land values, rural communities, agribusiness infrastructure, planting decisions of producers affected, and supply and prices of covered and other agricultural commodities.

They concluded that acreage and price effects are likely to be greatest in the short term. Over time, producers affected by further payment limitations are likely to adjust their operations accordingly.

Recommendations including:

1. Timing of changes in levels and application of payment limits:
 - Any substantial changes should take place with the reauthorization of the 2007 Farm Bill. The 200 Farm Bill establishes farm payment programs,

including payment limits, through the 2007 crop year and producers, their lenders and other agribusiness firms make long-term investments based on this multi-year legislation.

- If substantial changes are made, there should be an adequate phase-in period. This will help avoid unnecessary disruptions in production, marketing and business organization, including landowner-tenant lease arrangement.
2. General Administration of payment limits:
 - More resources should be allocated for payment limit administration in USDA's Farm Service Agency (FSA) and Office of Inspector General (OIG). More resources could augment current efforts to train staff on payment limits and monitor compliance and enforcement. Consider developing a system of graduated penalties for intentional violations of regulations that would make the penalty commensurate with the degree of the infraction.
 - Payment eligibility and limitation statutes and regulations should not create incentives that lead producers to choose one form of business organization over another.
 - Payment eligibility and limitation statutes and regulations should not cause producers to take on production and marketing risks that they would not otherwise undertake. Share-lease arrangements are important risk-sharing mechanisms for producers.
 - Efforts to change payment limit policies should strive to make the policies meaningful, transparent and simple.
 - Changes in payment limits should be sensitive to differences in commodities, regions and existing agribusiness infrastructure.
 3. Need for additional information
 - USDA should provide more complete data on farm program benefits. There is no direct information available on how farms would be affected by further payment limitations. USDA also needs to implement section 1614 of the 2002 Act, which requires tracking of benefits provided directly or indirectly to individuals and entities.
 - Develop and analyze alternative ways of addressing payment limits, eligibility and limit implementation. Changes in payment limits should not be made without an understanding of the costs and benefits of the change.
 4. Payment limit implementation and eligibility requirements:
 - Attribute payments directly to individuals (human beings) to improve program transparency, administration and farm business efficiency. Currently, payments are attributed to persons, which may be individuals or entities, such as corporations. Differential treatment of the various forms of business organizations creates incentives for producers to choose business organizations based on payments rather than risk or other business considerations. They recommend two alternatives for implementing direct attribution. For both approaches, the uniqueness of pooling commodities for sale, such as marketing cooperatives, may have to be addressed.
 - All payments would be attributed directly to individuals and subject to the payment limits on individuals. Entities could still qualify for and receive payments. The individual would have to be actively engaged in agriculture for the individual, or the individual's share of an entity, to receive payments. Payments to an entity would be limited by the number of individuals actively engaged in agriculture in the entity. A landowner, as well as trusts, nonprofit organizations, corporations or other entities, that own and share rent land

- would continue to be considered actively engaged and be eligible to receive payments.
- All payments would be attributed directly to an individual, but the individual would not have separate limits for payments received directly from the government and from payments received through entities. The existing limits would be combined into one limit per individual.
 - Strengthen the current criteria for determining eligibility of persons for payments to improve program integrity.
5. Payment limits of marketing loan benefits:
- Potential changes must address a fundamental policy choice about who should benefit from farm program payments. The Commission was divided. Some believed we should continue the current nonrecourse marketing loan program. Others believed the payment limit for marketing loan benefits should apply to all four types of marketing loan benefits; LDPs, MLGs, certificate exchange gains and forfeiture gains.

(7)

Article Title: "Farm Policy: An Agenda for Reform"
 Author: John E. Frydenlund
 Article Date: March 8, 2002
 Source: The Heritage Foundation <http://www.heritage.org/Research/Agriculture/BG1524.cfm>
 Category: Risk Management

Frydenlund argues for a governmental system that supports farmers through risk management programs versus government subsidies. The author's central argument is that governmental subsidies for farmers create a counterproductive cycle of dependency or a system of government handouts. Since the 1996 passage of the farm bill, the author has seen no evidence that the transition period from 1996 to 2002 has been used to prepare for a system without subsidies. Rather, Frydenlund contends that farmers have used this period to lobby to maintain or increase their federal subsidies.

Six specific recommendations for policymakers are presented by the Frydenlund. These recommendations are posed in order to build upon reforms already initiated in the 1996 farm bill. The six recommendations are: 1) to end permanent farm law; 2) to end the sugar and peanut program; 3) to end the dairy program; 4) to eliminate or scale back the Conservation Reserve Program (CRP); 5) to phase out the federal crop insurance program; and 6) to pursue an open, global food economy.

According to the author, by ending permanent farm law, a more equitable system will result because the elimination of marketing loans for wheat, feed, grains, cotton, rice, and oilseeds will no longer be going primarily to the wealthiest families. If a transition period in which farmer's receive payments is inevitable, the author suggests that a period of no longer than three years be used. In order to end the sugar and peanut program, the author recommends providing a three-year phase-out of support prices, import quotas, and acreage allotments. In this regard, current support prices should be reduced incrementally so that the U.S. price will be in line with the world price by the end of the third year. No direct payments would be provided during this transition. The author believes that price support program, the Milk Marketing Order System, and authorization for the Northeast Interstate Dairy Compact should be eliminated immediately because these programs or systems give some regions an unfair

advantage. In light of this notion, the demand for domestic consumers and the international market should set milk prices. Regarding the Conservation Reserve Program (CRP), the author suggests that by not renewing expiring contracts or by not entering into any new contracts, the program could eventually be phased out. In this regard, CRP participants should be given the option to remove non-environmentally sensitive land from the program before their contract expires for a 33 percent return rate. The fifth recommendation for farm bill reform by the author is to phase out the federal crop insurance program. A three-year time frame would also be suggested in this case. During the three-year phase-out period, Frydenlund suggests that the insurance be available for a declining percentage of each farmer's crop. The main benefit of this policy is that it would encourage the development of a private insurance system so that the taxpayer burden of paying for farm subsidies is lessened. The last recommendation by the author is to pursue an open, global food economy. The idea with this policy recommendation is to remove trade barriers so that farmers can have greater market access and presumably greater overall profits. Frydenlund believes that greater farm profits will, in turn, positively affect the overall U.S. economy. By utilizing the above policy recommendations, Frydenlund argues that the barriers to effective farm policy will be removed, which will in turn allow American agriculture to operate in a true, free-market system.

Once the barriers to farm policy reform are removed, Frydenlund believes that by removing regulatory roadblocks and by including expanded use of futures and options markets, and by allowing greater free-market competition the federal government will be able to help farmers create their own safety nets. The process of creating a safety net could include such strategies as the use of future's contracts, options markets, crop insurance, revenue insurance, and farm risk savings accounts. Futures contracts help farmers by guarding against the risk that prices will be lower when they are ready to bring their crops to market. The price, at which the crop is sold, as well as the date it is to be sold, is predetermined. A second strategy, an options market, gives farmers an extra advantage because it allows them to protect their business from unfavorable price movements, while still giving them a chance to profit from favorable price moves. While crop insurance may be a viable risk management alternative, it still involves the extensive use of governmental subsidies. In addition, while there have been legislative attempts at enticing farmers to use this form of risk management, the author states that only an increase in subsidies has worked. Revenue Insurance is used in addition to crop insurance in order to protect farmers from variations from a target level of income. Frydenlund states that it is unlikely that this type of strategy would be successful because heavily subsidized crop insurance is so readily available. Last, Farm Risk Savings Accounts would involve the use of self-managed individual retirement accounts by farmers to manage risk. The money in these types of accounts would be tax-free.

In conclusion, the author believes that farmers should be given the opportunity to take advantage of an expanding, global market place. Taking the federal government out of the picture would allow farmers to succeed.

(8)

Article Title: "Farm and Ranch Equity Act of 2001 (Introduced in Senate)"

Authors: N/A

Article Date: 2001

Source: <http://thomas.loc.gov/cgi-bin/query/F?c107:1:/temp/~c107PM7DDm:e19942>:

Category: Risk Management

The Farm and Ranch Equity Act of 2001 (S.1571) has two purposes: 1) to encourage farm and ranch producers to select risk management strategies that best suit their unique financial needs and 2) to not only provide new programs that will allow producers to address their unique financial needs, but to also provide new programs that do not distort commercial markets and that are consistent with international trade agreements.

Specific components of the Act include section 112, risk management contract, section 113, whole farm revenue insurance, section 525, whole farm revenue insurance, and section 114 risk management stabilization accounts. The following selected summaries are taken directly from the Act.

Section 112 Risk Management Contract. This section states that the Secretary shall offer to enter into a risk management contract for crops during 2003-2006. In this case, the Secretary pays a producer a voucher that is equivalent in value to the average adjusted gross revenue of the producer. Payment rate details are contained within this section of the Act. Regarding eligibility under the Act, producers cannot receive more than \$30,000 in a year. Producers are ineligible if they are an agency of the Federal Government, State, or a political subdivision of a State; are an entity that has shares on a public stock exchange; or are another entity determined by the Secretary to be ineligible.

In exchange for the voucher, producer responsibilities include, but are not limited to conservation compliance. Under conservation compliance, a producer must comply with the highly erodible land conservation requirements under subtitle B of title XII of the Food Security Act of 1985 (16 U.S.C. 3811 et seq.); and comply with the wetland conservation requirements under subtitle C of title XII of that Act (16 U.S.C. 3821 et seq.). Of particular interest under administration of the Act may be part "f", which states that the Secretary shall provide for sharing of benefits among all producers on a fair and equitable basis.

Section 113 Whole Farm Revenue Insurance. This section states in part that the Federal Crop Insurance Act is amended by adding an option for whole farm revenue insurance. Specifics of the revenue insurance are described in section 525.

Section 525 Whole Farm Revenue Insurance. Producers may use their vouchers to obtain insurance that provides a revenue guarantee for all of their agricultural enterprises. The amount of revenue guarantee should be equal to the product obtained by multiplying the coverage level by the average adjusted gross revenue of the producer. The coverage level is 80 percent of the average adjusted gross revenue of a producer. Producers are not required to purchase any other policies of multiperil or revenue coverage if they have coverage under this section. The Secretary is required to offer this type of policy through a reinsurance agreement with a private insurance company, to ensure that the policy is actuarially sound, to require the producer to pay

administrative fees and premiums for the policy in accordance with subsections (c)(10) and (d), respectively, of section 508; and to pay a portion of the premium for the policy in an amount that does not exceed the amount authorized under section 508(e)(2)(F). The reinsurance years are from 2003 – 2006.

Section 114 Risk Management Stabilization Accounts. If a producer uses a voucher as indicated in section 112(d)(1)(B), the producer must establish an account for which the producer provides monetary contributions to the account and for which the producer can withdraw accumulated funds from the account. The Secretary administers these accounts through the Farm Service Agency and local and county offices within the Department of Agriculture. As part of his/her responsibility, the Secretary must provide matching contributions to the account. The maximum account balance of a producer cannot exceed 150 percent of the average adjusted gross revenue of the producer. A producer may withdraw from the account if the adjusted net income for an applicable year from the agricultural enterprise is less than the total average adjusted gross revenue of the producer. In cases of retirement, the producer may withdraw the full balance of the account and close the account, but may not establish another such account.

(9)

Article Title: New Approaches to Public/Private Crop Yield Insurance

Authors: Jerry Skees, Peter Hazell, and Mario Miranda

Article Date: to be published by the World Bank

Source: <http://www.itf-commrisk.org/documents/pubprivyieldins.pdf>

Category: Risk Management

Natural disasters can be extremely disruptive to farmers and to others whose incomes depend on a successful crop. Society can gain from more efficient sharing of crop and natural disaster risks. However, the costs associated with traditional agricultural risk programs have historically exceeded the gains from improved risk sharing. This paper explores government intervention in agricultural risk markets and discusses new approaches to risk sharing with limited government involvement. In particular, we build the case for introducing negotiable state-contingent contracts settled on area crop yield estimates or locally appropriate weather indices. These instruments could replace traditional crop insurance at a lower cost to government while meeting the risk management needs of a wider clientele.

What is needed is a system of insurance that meets the following requirements:

1. It is affordable and accessible to all kinds of rural people, including the poor.
2. It compensates for catastrophic income losses to protect consumption and debt repayment capacity.
3. It is practical to implement given the limited kinds of data available.
4. It can be provided by the private sector with little or no government subsidies.
5. It avoids the moral hazard and adverse selection problems that have bedeviled crop insurance programs.

Area-based index contracts, such as regional rainfall (and other weather) insurance could meet all these requirements. The essential principle of area-based index insurance is that contracts are written against specific perils or events (e.g. area yield loss, drought, or flood) defined and recorded at a regional level (e.g. at a local weather station). Insurance is sold in standard units (e.g. \$10 or \$100), with a standard contract

(certificate) for each unit purchased called a Standard Unit Contract (SUC). The premium rate for a SUC is the same for all buyers who buy the same contract in a given region, and all buyers receive the same indemnity per SUC if the insured event occurs. Buyers are free to purchase as many units of the insurance as they wish.

Area-based crop yield insurance is a good example of such a scheme. In this case the insurance is written against the average yield for a region (e.g. a county or district), and a payment is made whenever the measured yield for the region falls below some pre-defined limit (say 80 percent of normal). Such schemes already exist in the US, India, Sweden, and the Canadian province of Quebec (Miranda; Mishra; Skees, Black, and Barnett). In the U.S., the Group Risk Plan uses county yields to trigger a payment, and coverage up to 90 percent of the county yield is available. Payments are made based on the protection (liability) selected by the farmer and the percentage below the trigger yield (coverage times the expected county yield).

Since county yield data are available for long periods of time, adjustments to the trigger yield are made for technical advances. Area-based yield insurance requires long and reliable series of area-yield data, and this kind of data is not available in many countries. Hence alternative indices may be more attractive, such as area rainfall or soil moisture indexes. Rainfall and soil moisture contracts could effectively protect against crop losses due to drought or excess rainfall. Improved ground instruments coupled with satellite and remote sensing technologies make measuring rainfall and soil moisture less expensive than in years past. These technologies can also be used to add credibility to the measurement so that those outside the country have confidence in the numbers. Area-based index insurance has a number of attractive features:

1. Because buyers in a region pay the same premium and receive the same indemnity per SUC, it avoids all adverse selection problems. Moreover, the insured's management decisions after planting a crop will not be influenced by the index contract, eliminating moral hazard. A farmer with rainfall insurance possesses the same economic incentives to produce a profitable a crop as the uninsured farmer.
2. It could be very inexpensive to administer, since there are no individual contracts to write, no on-farm inspections, and no individual loss assessments. It uses only data on a single regional index, and this can be based on data that is available and generally reliable. It is also easy to market; SUCs could be sold rather like travelers' checks or lottery tickets, and presentation of the certificate would be sufficient to claim a payment when one is due.
3. The insurance can be sold to anyone. Purchasers need not be farmers, nor even have to live or work in the region. The insurance should be attractive to anybody whose income is correlated with the insured event, including agricultural traders and processors, input suppliers, banks, shopkeepers, and laborers. Defining SUCs in small denominations would raise their appeal to poor people.
4. It would be easy for the private sector to run, and might even provide an entry point for private insurers to develop other kinds of insurance products for rural people. For example, once an area-based index removes much of the co-variate risk, an insurer can wrap individual coverage around such a policy to handle independent risk (i.e., certain situations where the individual has a loss and does not receive a payment from the area-based index).

5. As long as the insurance is voluntary and unsubsidized, it will only be purchased when it is a less expensive or more effective alternative to existing risk management strategies.
6. A secondary market for insurance certificates could emerge that would enable people to cash in the tradable value of a SUC at any time.
7. Recent developments in micro-finance also make area-based index insurance an increasingly viable proposition for helping poor people better manage risk. The same borrowing groups established for micro-finance could be used as a conduit for selling index insurance, either to the group as a whole, or to individuals who might wish to insure their loans

Other References on Risk Management

- Bruce Babcock and Chad Hart, "Judging the Performance of the 2002 Farm Bill," Iowa Ag Review, Spring 2005. - Combining commodity, disaster, and crop insurance programs into a single-payment method based on the Group Risk Income Protection plan would increase transparency, cut duplication and administrative costs and largely eliminate over- and under-payment of farmers. An easy fix for one of the weaknesses of GRIP as a commodity policy is to replace futures prices with a fixed price to calculate county revenue guarantees. An easy fix for the overcompensation that occurs when farmers use low harvest prices to maximize marketing loan benefits is to calculate payments based on season-average prices, much like we do with the current countercyclical payment program. Such a modified GRIP program would closely match payments with revenue shortfalls if all corn and soybean farmers received such a policy instead of current farm programs. The authors calculated the results assuming that county revenue guarantees are based on a \$2.73 corn price and a \$6.00 soybean price. A payment was made to all farmers in a county if the product of the season-average price and the yield per planted acre fell below 90 percent of the guarantee. Result shows that this new policy tool would have avoided most of the overcompensation of corn and soybean farmers in 2004. The lower overcompensation that occurred in 2003 results from payments being targeted to those counties with low yields. For corn in 2002, the new policy would have come much closer to hitting the revenue target than either the current farm program or the market-based GRIP. A GRIP-type farm program would be classified as "Amber Box" under the current WTO agriculture agreement and the Doha Round framework because payments are tied to the current price level and the farmers' choices in planted acres. The program could be modified to fit within the "Blue Box" or the "Green Box." However, the modifications might limit the effectiveness of the program. The Blue Box modifications would allow payments to be triggered by price declines or regional yield disasters, but the payments could not change with national and/or farm shifts in planted areas. Green Box modifications would allow price and/or yield reductions to trigger payments and some updating for regional shifts in crop production; but shifts in farm production would not be accounted for and the program would require larger price and/or yield declines to trigger payments.
- Western Growers Association comment [emailed to R. Grossi] – In the draft "Blueprint for Reform", Western Growers agrees with the guiding principles that states: "farm policy should provide a cost effective safety net that does not

stimulate production.” That is precisely the risk we run with the development of new pilot programs for specialty crops. RMA must be cautious to avoid encouraging oversupply and work with specialty crop stakeholders to ensure industry consensus. With our members fiercely competitive supply/demand environment, RMA programs must not manipulate the risk/reward inherent in our industry, by artificially minimizing risk and creating false incentives to expand acreage which will in the long run not benefit growers or consumers. Over the last seven years or so this issue has been a very contentious topic within our association. While a limited number of commodities have indicated an interest in AGR, most have indicated strong opposition. In the highly entrepreneurial specialty crop industry, producers are making planting decisions on market driven signals, not the availability of government insurance programs. Some of the guiding tenets during the last seven years for Western Growers on crop insurance are: (1) Programs should be developed and implemented on a national basis so that regional advantages are not falsely created. (2) Program should not provide incentives for growers to expand acreage or shift into the insurance program because of the protections. (3) Programs should not encourage below market sales. (4) Programs should not provide for guaranteed income insurance. (5) Industry members should be uniformly notified of pilot programs. (6) Programs should recognize differences in local growing conditions and cultural practices, such as the difference between irrigated and dry land farming. While Western Growers is always amenable to discussing any new initiative or policy, it is our belief that some of the aforementioned limitations, while not guaranteeing, would provide some assurance that market disruption would be minimal and should discourage overproduction, oversupply and risky production techniques that have plagued many program crops over the many decades.

- A Safety Net for Farmers—A Safety Net for Farm Households, AER-788, October 2000 - report examines four scenarios for government assistance to agriculture based on the concept of ensuring some minimum standard of living. Lower income farmers would benefit relatively more from the safety net scenarios, while farmers producing selected commodities benefit relatively more from current farm programs. Farm households in the Northern Crescent, the Eastern Uplands, the Southern Seaboard, and the Fruitful Rim all would generally receive a higher level and a greater proportion of benefits than under current programs. A clear understanding of objectives and intended beneficiaries must be the starting point for discussions of future farm policy. - <http://www.ers.usda.gov/publications/aer788/aer788.pdf>
- How U.S. Farm Programs and Crop Revenue Insurance Affect Returns to Farm Land, Review of Agricultural Economics , June 2004, vol. 26, no. 2, pp. 238-253(16) by Gray A.W.; Boehlje M.D.; Gloy B.A.; Slinsky S.P. - A simulation model incorporating price and yield variability is used to examine the impact of government farm program and crop revenue coverage (CRC) insurance payments on the probability distribution of returns to land. Results indicate that Marketing Loan Program payments have the greatest impact on both the mean and standard deviation of returns. Agricultural Market Transition Act payments shift the distribution of returns without changing the variability, creating a reduction in relative risk. Market loss assistance payments increase the mean, reduce variability, and increase skewedness. When combined, farm programs

substantially increase the value that risk-averse producers place on the residual returns to land and substantially reduce the certainty equivalent value of CRC.

- Farmers' Preferences for Crop Insurance Attributes, Review of Agricultural Economics, December 2003, vol. 25, no. 2, pp. 415-429(15) by Sherrick B.J.; Barry P.J.; Schnitkey G.D.; Ellinger P.N.; Wansink B. - Utilizing survey data from corn and soybean farmers in the Midwest, this study assesses the relative importance of different features of crop insurance products. Conjoint analysis results indicate that farmers' preferences for flexibility dominate both type of insurance and coverage level. Revenue insurance demand is greater by those who are larger, younger, and farm in more separate locations. Results are significant and consistent by size, insurance usage, leverage, and risk perception. The results permit prediction of market shares of competing insurance products within specific producer segments, and thus also provide guidance for targeting specific producer groups with new product configurations.
- SJ&H Co, Inc., RMA Roundtable Discussion, September 2003, "Evaluating the Risk Management Needs of Farmers and Ranchers in the Fifteen Underserved States" - Describes overall programs of State Departments of Agriculture, Cooperative Extensions, Farm Bureaus, and Farm Credits in risk management and education, and coordination among these entities. Focus-group findings (35 groups in the East and the West) show that producers rank greatest risks as low crop prices, yield shortfall, regulatory and environmental concerns, and labor-related issues. Their primary RM tools are diversification, marketing strategies, business planning and financial planning. Field crops, hay and silage and fruit producers, relative to other commodities are utilizing crop insurance as a RM tool. Needs assessment component shows producers would like more options to address pricing/marketing and environmental/regulatory concerns. Available products do not meet the needs in underserved states.
http://www.rma.usda.gov/news/2003/01/RMA_Risk_Management_Study.pdf
- Natural and market disasters—Risk, Government Programs, and the Environment Michael J. Roberts, Craig Osteen, and Meredith Soule, TB1908, March 2004 - Report examines the conceptual underpinnings of risk-related research, challenges involved with measuring the consequences of risk for agricultural production decisions, government programs that influence the risk and return of farm businesses, and how production decisions influence both the environment and the risk and average returns to farming.
<http://www.ers.usda.gov/publications/tb1908/tb1908.pdf>
- Crop insurance—1998 ARPA and refinements, Jerry Skees, "The Bad Harvest", *Regulation*, Spring 2001, "Agricultural Risk Management or Income Support?" *Regulation*, Vol. 22 No. 1 - Illustrates the relationship between premiums and benefits and the effect of subsidies on private insurance companies. High government subsidy, the persistent use of free disaster aid, and program expansion have combined to create a complex policy that distorts production patterns and delivers unbalanced benefits to farmers. Even ad hoc disaster assistance may be more efficient, less costly, and more equitable than the risk management programs created in the past 20 years.
<http://www.cato.org/pubs/regulation/regv24n1/skees.pdf>

- Farmer Savings Accounts--Canadian-styled Net Income Savings Accounts (NISA), Farm and Ranch Risk Management (FARRM) Accounts, Individual Risk Management Accounts (IRMA), Farm Program Payment Reserve (FPPR) Accounts; Farm Foundation, The 2002 Farm Bill: Issues and Alternatives (2002) Conference Highlights - Vernon Eidman's examination of two types of programs to enhance producers' ability to manage risks that could have been included in the 2002 Farm Bill: crop and revenue insurance, and savings programs. Providing each farm with a voucher for a fixed dollar amount regardless of the crops produced is likely to result in less distortion of planting and other decisions on the farm. The savings account concept is to provide a legal basis for farmers to place before-tax dollars into a savings account during high income periods and have the flexibility to withdraw them when they are needed.
<http://www.farmfoundation.org/projects/02-31.pdf>
- Farmer Savings Accounts, Mark A. Edelman, Iowa State University James D. Monke, Economic Research Service, USDA, Ron Durst, Economic Research Service, USDA) - Six policy alternatives are outlined in this paper to provide some understanding of the role farmer savings incentives might play in future farm policy. http://www.farmfoundation.org/2002_farm_bill/edelman.pdf
- Chuck Mason, Dermot Hayes, and Sergio Lence, CARD-ISU, "Systemic Risk in US Crop and Revenue Insurance Programs" - An attempt at quantifying the level of risk accepted by the government in its role as reinsurer, using Monte Carlo simulations. The results yielded a number greater than the reimbursements made by the RMA in its worst reinsurance year. Various hedging strategies are also examined - - the level of risk reduction achievable by hedging is found to be appreciable.
<http://www.card.iastate.edu/publications/DBS/PDFFiles/01wp266.pdf>
- Thomas Garrett, Thomas Marsh, Maria Marshall, "Political Allocation of Agriculture Disaster Payments in the 1990s" - Reveals that disaster payments are not based solely on need, but are higher in those states represented by public officials key to the allocation of relief; also found significant negative correlation between crop insurance payments and direct disaster payments. Questions the role of government versus private agencies in providing a more efficient system of disaster relief. - <http://research.stlouisfed.org/wp/2003/2003-005.pdf>
- U.S.D.A. 2004. Statement of Keith Collins.
http://www.usda.gov/agency/oce/oce/congressional_testimony/kc-july21-2004.pdf. This briefing paper provides an update on the activities of the Board of Directors of the Federal Crop Insurance Corporation. Chairperson, Keith Collins, summarizes the Board's activities since the last U.S. House Subcommittee's last hearing on May 22, 2003. As taken directly from the briefing paper, eleven proposals for new insurance products and changes to existing insurance products submitted to the private sector under section 508(h) of the Federal Crop Insurance Act to actuarial and underwriting experts for review. The Board also evaluated other products developed under contracts managed by RMA and approved 15 program expansions.

V. REVENUE INSURANCE

The Issue

Revenue insurance pays for losses below a revenue guarantee, a combination of yield and price. Revenue guarantees are calibrated each year, based on recent crop yield history and harvest-period crop prices. Revenue insurance products were first offered to farmers under the Federal crop insurance program in the mid-1990s. Farmer participation in revenue insurance has grown steadily aided by substantial premium subsidies. In 2004, about 60 percent of the acres covered by crop insurance were covered by revenue insurance.

Background

In the early 1980s, the Federal government moved to make crop insurance the primary form of disaster aid to farmers by expanding the number of crops and the areas where insurance was offered and by paying a portion of farmers' insurance premiums. In the 1990s, the variety of insurance plans offered under the Federal program was expanded from a single offering, farm-level yield insurance called Actual Production History-Multiple Peril Crop Insurance (APH-MPCI). The first revenue products added to the program were *Crop Revenue Coverage* and *Income Protection*, which were introduced on a pilot basis in 1996. They were followed by *Revenue Assurance* in 1997. These types of revenue insurance establish a producer's level of expected revenue by taking the yield guarantee under APH-MPCI and multiplying it by an expected harvest price, which is measured by futures contract prices. From the outset, *Crop Revenue Coverage* allowed a guarantee to increase if harvest prices increased above their pre-planting levels. In 2002, *Revenue Assurance* added this feature. In 1999, a revenue insurance product that allows a producer to insure a proportion of the county-level average revenue, *Group Risk Income Protection*, was added to the crop insurance program.

Crop Revenue Coverage, *Income Protection* and *Revenue Assurance* are widely available for corn, soybeans, wheat, cotton and several other field crops. *Group Risk Income Protection* is available for corn and soybeans in a few states. In 2004, *Crop Revenue Coverage* and *Revenue Assurance* accounted for the bulk of revenue insured

acres, each covering more than 60 million acres. *Income Protection* covered about one million acres and *Group Risk Income Protection* about 2.5 million acres.

Revenue insurance is attractive to farmers because of the price risk protection included in the revenue guarantee. Traditional crop yield insurance pays an insured producer only when yield falls below its expected level, while revenue insurance pays when the combination of yield and price falls below its expected level. In addition, a producer may receive a higher level of price protection under revenue insurance.

The crop prices at which yield insurance indemnities are paid are based USDA forecasted prices and are fixed shortly before the crop is planted. The prices at which the revenue insurance guarantees are set are based on futures contract prices, which can be higher than the forecasted prices. The price used in a revenue insurance contract is set at its minimum level shortly before the crop is planted. This pre-planting price is usually the average over the month before planting of the post-harvest futures contract price. If, at the end of the growing season, the average price of the futures contract is higher than it was during the pre-planting period, this higher price is used to measure the revenue guarantee and to make the revenue insurance indemnities. For example, for a Revenue Assurance policy for corn in Iowa, the pre-planting period price is average daily settlement price in February of the December Chicago Board of Trade futures contract; the fall harvest price is November average price of this contract.

Increased revenue insurance participation has corresponded with increased premium subsidies, both for crop insurance in general and for revenue insurance in particular. In 1999 and 2000 producers were offered premium discounts in addition to the set of premium subsidies already in place. The discounts had their greatest effects on reducing farmers costs of high coverage levels of traditional crop yield insurance and of revenue insurance. The Agriculture Risk Protection Act of 2000 (ARPA), which took effect in 2001, increased the permanent premium subsidy rates and made subsidy rates for revenue plans equal to subsidy rates for APH-MPCI yield coverage. In 2004, premium subsidies accounted for about 60 percent of total crop insurance premiums, about \$2.5 billion in subsidies out of \$4.2 billion in total premium. About \$1.6 billion of the subsidies was for revenue insurance products.

In an attempt to extend insurance coverage to producers of crops for which traditional crop insurance and revenue insurance had not been available Adjusted Gross Revenue or AGR insurance was added to the crop insurance program on a pilot program basis in 1999. A similar type of insurance, called AGR-Lite was offered in a few states beginning in 2002. Both AGR and AGR-Lite are based on a producer's adjusted gross revenue on the Schedule F income tax form. Therefore, their coverage is for the combined revenue of the various enterprises on the farm (including some livestock enterprises) rather than the crop-by-crop coverage of *Crop Revenue Coverage, Revenue Assurance, Income Protection and Group Risk Income Protection*. Farmer participation in AGR and AGR-Lite has been limited thus far. In 2004, fewer than 1,000 AGR and AGR-Lite policies were sold.

Characteristics of Revenue Insurance as a Policy Tool

- Revenue insurance products provide an intra-seasonal guarantee. They are based on futures prices and recent yield histories. If futures prices or yields are low, the revenue insurance guarantee is also low. Altering revenue insurance to use a target price carries potential to distort market signals and production.
- The underlying design of revenue insurance stabilizes income and provides risk protection. Revenue insurance is based on the principal that payments received by the insured, indemnities, are equal in the long run to payments made by the insured, premiums. Subsidies for revenue insurance, however, can increase rather than merely stabilize incomes. Insurance subsidies increase the insured's long-run expected gain by reducing the insured's premium costs.

Research Group Suggestions

1. Expand revenue insurance
2. Individualized AGR and subsidized premiums
3. Optional risk management insurance with income averaging and revenue insurance program with premiums adjusted according to risk
4. Better safety net with income protection, risk insurance, farmer savings accounts and disaster crop insurance
5. Actuarially sound revenue-based insurance system
6. Enhanced crop insurance that provides some degree of revenue assurance and protection from catastrophic loss for everyone

7. Safety net payments that provide income in unusual years, cover crop failures and make up for poor markets plus CSP type program. Farm viability plans required.
8. Scrap crop insurance and put funds into a rainy day/voucher account.
9. Shift crop insurance away from the whole farm to smaller production units.
10. Provide crop insurance products that hedge downside risk.

Outreach Group Suggestions

VI. SPECIAL CASES: DAIRY

The Issue

Smaller dairy farms face significant economic pressure. Profit margins in the dairy industry are low, making it difficult for smaller dairy farms to earn sufficient income to support a farm household. Increasing environmental concerns in recent years add to problems of smaller farms due to higher per unit costs of compliance. Various programs, such as milk market order reform, Milk Income Loss Contract (MILC program), and the Northeast Dairy Compact have been developed to provide financial support to dairy farmers and help insulate producers from price volatility. The costs of environmental compliance have prompted policy analysts to propose modifications to the Environmental Quality Incentives Program (EQIP) and the Conservation Security Program (CSP) to help smaller dairy farms comply. Some policymakers are interested in determining whether some form of “green payment” scheme could substitute for traditional dairy price support programs. Green payments are payments made to farmers and ranchers in exchange for the environmental benefits that they provide the general public. Because many environmental policies are primarily being driven by EPA regulations, a major benefit of a “green payment” program is that it could decrease a farmer or rancher’s cost of production by offsetting the cost of environmental compliance. Payments could also enhance income in cases where the money spent on conservation is money that would have been spent on the agricultural enterprise anyway (Anderson, 2001). Critics state that green payments would primarily benefit farms with larger herds because those farms have more overall production income to help disperse the cost of environmental compliance. Small farms, therefore, may have the least incentive to integrate green dairy practices within their operations because they could be bearing a disproportionate amount of compliance costs compared to larger farms.

Background

While some individuals view these programs as desirable, others have expressed concerns over whether some programs undermine others. Regional differences with respect to federal support are also present within the dairy industry. The Northeast Dairy Compact, which was not reauthorized in the 2002 Farm Bill, was designed to

provide additional support for producers in this region. Milk Income Loss Contract (MILC program) authorized in the 2002 Farm Bill targets income support to smaller producers. The complexity of dairy programs and the regional differences they highlight have led some researchers to explore whether a “green payments” program specifically designed for dairy could address these problems. The Environmental Quality Incentives Program (EQIP) and the Conservation Security Program (CSP) are two conservation programs that could be used to design such a program.

EQIP was enacted by the 1996 Farm Bill and received a mandatory increase in funding of \$6.1 billion over six years in the 2002 Farm Bill. Despite this significant increase in funding, the total number of farms and ranches benefiting from the program has not increased because the payments per farm have increased substantially. In fact, during 2004, three out of four applicants for EQIP funding were rejected. The program provides agricultural producers with cost share assistance to design and install erosion control measures and agricultural waste facilities or to establish conservation practices. The statute requires that 60 percent of EQIP funds be allocated towards livestock related practices.

Authorized by the 2002 Farm Bill, the Conservation Security Program (CSP) was established to address the failure of the marketplace to provide incentives for the production of environmentally friendly farm plans. CSP is significant to agriculture as a whole because it is the first conservation program to financially reward producers who already practice good stewardship. In relation to dairy, the program has been especially significant because it offers payments for a wide range of practices, such as wildlife friendly haying and grazing techniques. Farms traditionally ineligible for other farm bill programs that have been designed primarily for cropland can now benefit from participation in the CSP program.

Selected Characteristics of Reform

Any dairy proposal should ideally have the following characteristics:

1. Emphasize the public benefit, but provide some supplemental income. Open space could be considered a public benefit, for example
2. Be voluntary in nature
3. Recognize activities that enhance protection of land, water, air, and wildlife
4. Target a wide continuum of producers

5. Include increased funding for research. Sound conservation practices often depend upon continuing technological advancements. Better technology, in turn, could mean that small farms will realize smaller compliance costs
6. Provide maximum flexibility for states to set priorities

Reform Options

Options and Principles include:

1. Extending the MILC program
2. Adopting a bottom-up approach in which acceptable conservation practices are determined by state and local governments, not USDA
3. Creating federal grant and/or loan program to address infrastructure and diversification issues specific to dairy operators
4. Providing funds up-front to cover costs of installing conservation practices
5. Creating tiered payment mechanism. The more environmental benefit, the higher the payment
6. Providing resources for technical assistance, i.e., implementation, monitoring, research, and peer mentoring. Peer mentoring is defined as farmers sharing their knowledge of how to implement conservation practices with inexperienced farmers).
7. Excluding the requirement on federal taxes of reporting all payments related to agricultural conservation practices

Who Supports It?

1. Consumers-domestic
2. Foreign producers—developed countries
3. Foreign producers—less developed countries
4. The poor and their advocates
5. Health advocates
6. Sustainable agriculture
7. Taxpayers
8. Fiscal conservatives
9. Enviros
10. Immigration reformers
11. Farm workers and their advocates
12. Global/free trade advocates

◆ Who Opposes It?

1. Supported producers
2. Consumers-foreign
3. Agribusiness-exporters
4. Agribusiness-input suppliers
5. Farm area businesses
6. Commodity groups
7. Farm lenders
8. Small farmers (dairy)

Research Group Suggestions

Outreach Group Suggestions

Summaries of Ideas on Dairy

(1)
Article Title: Dairy Policy in the Next Farm Bill: An Early Assessment
Author: Ed Jesse
Date: March 2005
Source: Department of Agricultural and Applied Economics, University of Wisconsin at Madison

This paper identifies likely changes within the dairy title of the next farm bill. The author first reviews the dairy provisions of the current legislation, then discusses the main factors that will influence dairy provisions under the new bill, and finally speculates on the nature of dairy price and income support options that will likely be considered by Congress in the next dairy title.

Overview of Current Dairy Provisions:

MILC

The House-Senate Conference Committee rejected the notion of separate deficiency payment programs and subsequently created a national deficiency program called MILC. The author of this article, Ed Jesse, states that MILC was essentially the Senate Northeast plan applied nationwide. While the MILC program may have several benefits, it has been a source of controversy. Critics state that the cap is discriminatory because it benefits smaller, less efficient farmers. While Jesse sees this as a plausible theory, he does not believe it is strongly supported based on statistics between 2001 and 2004 showing U.S. dairy cows in herds with fewer than 200 cows fell from 48.7 to 41.6 percent of the total inventory. Instead, Jesse contends that non-economic factors played a much larger role in influencing expansion and exit decisions. Currently, the MILC program is set to end on September 30, 2005. President Bush's proposal to extend MILC includes a five percent cut in payments, but Jesse states that any extension will probably be opposed by legislators from states with larger dairy herds.

DAIRY PRICE SUPPORTS

The Federal Agricultural Improvement and Reform Act of 1996 specified that dairy price supports be terminated effective December 31, 1999. However, subsequent extensions delayed termination and the 2002 Farm Bill reauthorized the support program at \$9.90 for milk of average butterfat through December 31, 2007.

OTHER EXTENSIONS OF AUTHORITY

The Dairy Export Incentive Program (DEIP) and the Dairy Indemnity Program (DIP) were extended through 2007. The fluid milk program (MilkPEP) program, initially authorized under the Fluid Milk Promotion Act of 1990 was extended through 2007 at 20 cents per hundredweight fluid handler assessment rate. In addition, the 2002 Farm Bill also

extended mandatory reporting of inventories of dairy products by milk processors and strengthened reporting requirements.

ASSESSMENTS ON DAIRY IMPORTS

The current Farm Bill requires importers of dairy products to pay an assessment equivalent to the mandatory 15 cents per hundredweight that U.S. Dairy farmers pay to fund the National Dairy Promotion and Research program. However, at the date of this article, this provision had not been implemented due to the issue over the World Trade Organization (WTO) legality of the provision. The USDA and the Office of Special Trade Representative have raised questions about imposing the assessment on imports when some domestic producers are exempt from the promotion check-off.

REQUIRED ECONOMIC STUDIES

The 2002 Farm Bill has mandated that the USDA conduct three economic studies related to dairy. The Economic Research Service of the USDA combined two of these into a major study released in late 2004. The conclusion of this study was that all federal dairy programs combined had only a modest effect on farm milk prices, producer revenue, and consumer prices.

DAIRY POLICY DRIVERS IN 2007

Jesse states that there will be two key drivers of dairy policy in the next farm bill: 1) the budget deficit; and 2) international trade concessions made by the United States under the Doha round of the WTO negotiations. Federal tax receipts fell sharply in 2001 and escalating government expenditures amounted to an estimated federal deficit greater than \$500 billion in FY 2004. Projections as of the date of this article show that the federal deficits will continue at this pace through 2011, even with a strong economy. This scenario creates a particularly challenging situation for federal monies earmarked for agricultural spending. Jesse states that efforts to control federal spending will have a strong influence in debates pertaining to new dairy legislation. Inter-commodity battles over receiving a fair amount of the smaller dollar allocation will ensue.

TRADE

Current WTO agreements relative to dairy limit “amber box” programs that are deemed to be price distorting. The WTO stance is that price support programs represent a transfer from consumers to producers, whether or not the support prices are binding. Jesse states that although the Doha round WTO negotiations may or may not be completed by the time debates surrounding the next farm bill are taken into serious consideration, any new agreement will further limit exemptions and will further decrease permitted amber box farm programs.

2008 POLICY OPTIONS

MILC in its present form is not seen as a viable policy option due to program costs and production caps. Jesse argues that the MILC target price is too high compared to average milk prices over the past several years, therefore making the program a price enhancement, as opposed to a safety-net tool. What is viable, according to Jesse, is a MILC-like counter-cyclical payment program for dairy. Since deficiency payment programs replaced non-recourse loans when it was clear that loans to support grain prices were impeding upon exports, the loan rates were often above world market prices. Likewise, the dairy price support program distorts market prices and interferes with exports. Using the counter-cyclical direct payments prevents this kind of market distortion by providing producer income support only when it is needed. In order to

accommodate WTO rules, counter-cyclical payments may have to be decoupled from current production and linked to a recent base period.

If the Dairy Price Support Program is retained, it will have to be modified to minimize market distortions. There are three ways to ensure that the intended floor under manufacturing milk prices is maintained: 1) Floor (snub) the Class III and Class IV federal order prices at \$9.80 .5; 2) Increase the make allowances used to derive CCC purchase prices in order to account for any higher costs of selling to the CCC; and 3) Require the CCC to alter product specifications and payment terms to conform to those used on the CME and to place standing bids on the CME block and barrel cheese markets at the CCC purchase prices.

It is estimated that another policy option will be to reauthorize and broaden the Northeast Compact concept, however; it is thought that this option will be unsuccessful in part because fluid milk consumption is becoming more sensitive to price. There is also a growing demand for soy-based milk, therefore creating a more flexible demand for the type of milk product sold and consequently, a smaller revenue from higher fluid prices. In addition, artificially enhanced fluid milk prices have a negative effect on markets for manufactured prices, such as is the case for cheese.

Last, Jesse suggests that there will be more attempts at converting farm income support toward “green payments”. Over time, direct payments to farmers for conservation practices have comprised a larger share of the total direct payment amount due to increasing concerns about environmental degradation from agricultural practices, to include dairying. The creation of the Conservation Reserve Program (CRP) spearheaded this new direction. Other programs, such as the Environmental Quality Incentives Program (EQIP) will serve to add to the conservation spending total. Possible options include imposing cross compliance requirements or partially targeting dairy payments to covering the cost of environmental regulations. In the future, in order to receive single farm payments, farmers will be required to comply with environmental, food safety, and welfare regulations.

(2)

Article Title: “Effects of U.S. Dairy Policies on Markets for Milk Dairy Products ”

Author: J. Michael Price

Article Date: May, 2004

Source: USDA – Economic Research Service

http://www.wfcmac.coop/coops/dairy/USDAERS/dairyreport5_04.pdf.

Category: Dairy

The report analyzes the economic effects of the principal programs influencing the U.S. dairy sector. As part of a congressionally mandated study to evaluate the economic impacts of Federal milk marketing orders, direct payments to producers, price supports, and export programs, the study looks at the effects of dairy policies on prices, program payments, and other variables. Because government programs supporting dairy operations have been in existence for nearly 70 years, the report is significant in that it addresses the impacts that would come about if these government subsidies were to be eliminated.

Four scenarios were used for the analysis: 1) Elimination of the Milk Price Support Program (MPSP); 2) Elimination of MPSP and the Dairy Export Incentive Program (DEIP); 3) Elimination of the MPSP, DEIP, and the Milk Income Loss Contract (MILC) program; and 4) Elimination of the MPSP, DEIP, MILC, and Federal Milk Marketing Order (FMMO). In the first scenario, the MPSP is terminated by setting all Commodity Credit Corporation Purchases (CCC) under the program to zero for cheese, butter, and nonfat dry milk over the 2002-2007 period. The assumption is also made that the CCC beginning stock levels are frozen at their 2002 levels over the 2002-2007 timeframe. Scenario two terminates DEIP by setting all exports under the program to zero. This analysis is under the assumption that DEIP does not displace any commercial exports of dairy products. The third scenario terminates the MILC program by setting the program target price from \$16.95 per hundredweight to zero over the 2002-2005 period. The report states that this action eliminates income-enhancing aspects of the program. Scenario four sets the Class I differential from \$2.69 (the 2000 rate) to \$1.30 per hundredweight to model the impacts of eliminating the program.

Overall, all scenarios were found to share some common characteristics in that elimination of the dairy program showed larger impacts during the initial years of the analysis. A factor that mitigated the initial impact was production response over time. Once producers were able to adjust their herd sizes in response to the price changes, the impacts became less pronounced due to lower milk supplies. The largest impacts occurred during the initial two years of the analysis and the largest total sector impacts were associated with scenarios three and four. The authors caution that scenario four may have the least credibility, as the FAPSIM dairy model may not include the entire importance of the order system on the dairy sector.

<p>(3) Article Title: "Region's Dairy Farmers Seek Equity in Milk Pricing" Author: Karen Imas Article Date: November/December 2003 Source: The Council of State Governments-Eastern Regional Conference Category: Dairy</p>

This article provides a comprehensive background on milk pricing and subsidy issues. Insight into the issue positions of farmers, farm advocacy groups, and other stakeholders (i.e., grocers) is also given. Imas indicates that regional differences in milk production, herd size, and pricing precipitate the problem of inequitable regulation. According to Imas, most advocates for dairy interests do not envision the federal government as correct organization in charge of replacing the Northeast Dairy Compact. Rather, it is recommended by the author that a combination of regional and state approaches be implemented.

Three key policy approaches are addressed in this article: 1) the Price Collar Approach, a market-based approach that aims to reallocate income; 2) Over Order Premiums, of which Pennsylvania regulates as a minimum price farmers receive; and 3) Price Gauging Laws (New York's law limits the retail price raw milk processor pay). Imas recommends a multi-pronged and regional approach. Educating farmers about public

relations and product differentiation is also key. The significance of these approaches to dairy is that a more effective pricing system could negate the need for larger herds, therefore helping to prevent land overutilization.

(4)

Article Title: "Green Payment Programs "

Author: David P. Anderson

Article Date: November 2001

Source: Agricultural and Food Policy Center, Texas A&M University

Category: Dairy

Anderson looks at the notion of green payments for dairy by examining various options proposed by the industry, elected officials, and non-agricultural policy drivers of change. Green policies began with an emphasis on cost sharing to the farmer and have dealt with erosion and conservation issues. However, the emphasis has expanded to include issues being driven by the Environmental Protection Agency (EPA), such as how to deal with animal waste in an environmentally sound way.

Current EPA regulations under the Clean Water Act define confined animal feeding operations (CAFOs) as a significant source of pollution and require that they maintain a Pollutant Discharge Elimination System (NPDES) permit. The EPA has proposed new rules (as of 2001) for tighter control of CAFO regulations, which should increase environmental benefits; however, Anderson states that the EPA's estimate of compliance costs could be underestimated. According to Anderson, the EPA's analysis overestimated gross and net returns on milk production. The analysis also estimated costs of compliance based on frequency factors, such as the cost of technology times the percent of operations that would have to do it. In Anderson's view, this kind of thinking leads to underestimation of the impact of regulation.

One concern with the underestimation of compliance costs within the proposed new regulation is that it is not neutral in fiscal impact and therefore poses potential harm to smaller dairy farms. Alternately, Anderson cautions that pointing to large operations as the main producers of pollution is also problematic. Although large farms do produce more total waste than smaller farms, Anderson adds that smaller farms can have an equally significant environmental impact.

There are several alternatives to current and proposed regulations. One alternative is to maintain current programs and funding levels. The possible consequences of this option are that producers would be responsible for most of the compliance costs and smaller producers would have a disproportionate responsibility in sharing the costs. A second alternative could be increasing EQIP funding. Anderson states that since the demand for this program has been large, increasing funding and relaxing the targeted nature of the funds (currently, only producers with less than 1,000 animal units are eligible with a \$50,000 payment) would mean that the funding is freed up for actual conservation projects, as opposed to only providing income for enhancement. Yet other proposals include Senator Tom Harkin's Animal Agricultural Reform Act (AARA) and the Conservation Security Act. The AARA proposed quadrupling the EQIP funding to \$800 million per year. The CSA was created to encourage the adoption of conservation

practices on farmland. Anderson states that these programs have traditionally been thought of as crop oriented policies, livestock management practices could be designated as being eligible for payments as well. Anderson concludes by stating that the expansion of cost sharing programs and the implementation of new green programs will allow dairies to overcome hurdles presented by other special interest groups. Targeting smaller producers may help them to survive as the industry structure transforms.

(5)

Article Title: "MILC's rules unfair to mid-sized dairy farms"

Author: Bruce A. Scherr, President, et. al

Article Date: September 16, 2002

Source: Dairy Farmers of America

Category: Dairy

Within the dairy industry there is much talk about potential inequities that are harmful to either small or large producers. This article takes a departure from the traditional debate (small vs. large farms) and presents a relatively unique concern, that of the medium-sized dairy operator. The overall concern from this advocacy group is regarding the United States Department of Agriculture's (USDA) directives on the MILC payment program. Specifically, the DFA and its members state that the USDA is not fulfilling the intent Congress had in mind when it wrote the MILC program. One underlying concern is that the current directive penalizes the medium-sized dairy producer by not allowing them to choose their payment months. The DFA states that this inequity will cost mid-sized farmers about \$48 million in lost revenues in one year.

With the current transition rules, medium-sized farms are put at a disadvantage because farms that choose a transition payment must begin with the payment rate of December 2001 and work forward until they hit the 2.4 million pound production cap. The lowest payment rates are in the beginning months of the transition period. As a result, because the authors state that the USDA does not have a good track record of predicting future milk prices, the question arises as to why producers should be asked to guess which months will maximize their payments.

The second main concern is that multiple owners are not being recognized by the payment procedures established by the USDA. Although in the author's view, farms with multiple owners are being more efficient, USDA directives specify that these types of farms should be considered as one farm and only eligible for one annual payment cap. According to the DFA, these types of policies penalize farms for trying to be industrious.

(6)

Article Title: "U.S. Dairy Policies to Meet 21st Century Realities:
A multi-client study"

Author: Bruce A. Scherr, President, et. al

Article Date: 2004

Source: SPARKS Companies, Inc.

Category: Dairy

The authors of this article state that five major factors are encouraging change in the dairy industry today. The first factor is the continuing growth in productivity as a result of new technologies. This factor, in particular, is significant because much of government policy focuses on the economic issues associated with milk production.

The second factor pertains to the new technologies for concentration and fractionalization permitting milk to move much more efficiently from farm areas to major metropolitan areas. Current government rules and regulations constrain the use of this available technology, so it is implied by the authors that this issue will need to be addressed as a part of dairy industry reform.

The third main factor is the large growth of formulated foods and the marketing efforts that accompany them. Because less than 27% of all milk produced in the U.S. is consumed as a liquid beverage, the concern here is that the proliferation of cheese and other milk-based food markets (e.g., yogurt, cottage cheese, pizza) will soon blur the line between traditional dairy companies and food companies.

The fourth factor is the growing market share by large retailers. In 1993, 15.8% of grocers were large retail operations. In contrast, in 2003, 27.5% were in this category. What this means is that as retailers become increasingly large, they will have less interest in vertical integration and manufacturing class prices may need to be re-evaluated.

The fifth factor relates to the European Union. The ascension of ten new countries brings forth a variety of policy and program changes, to include millions of new consumers. The trade implications along these lines warrant prudent evaluation of U.S. dairy policy changes. Overall, the authors state that new technologies and new management concepts will require the entire dairy industry to effectively adapt and to adopt key changes. The movement away from specialization and the globalization of food production in general will also have great impact.

Other References on Dairy

- Protecting/constraining markets (quotas and market orders)
- Regional favoritism--Thomas Garrett, Thomas Marsh, Maria Marshall, "Political Allocation of Agriculture Disaster Payments in the 1990s" (<http://research.stlouisfed.org/wp/2003/2003-005.pdf>) - Reveals that disaster payments are not based solely on need, but are higher in those states represented by public officials key to the allocation of relief
- Restricting imports/subsidizing exports
- Directions For Future Farm Policy: The Role Of Government In Support Of Production Agriculture, The Commission On 21st Century Production Agriculture, Report To The President And Congress, January 2001 - The Commission believes that decisions regarding the course of future dairy policy must address at least these four issues: Federal marketing orders, Extension of dairy compacts, Federal price

support and International market opportunities and challenges. The following program options, individually or in combination, should be evaluated within the context of a continuation of our existing international commitments on sugar imports: A marketing loan program for sugar; Domestic marketing controls; Domestic production controls; Some form of direct payment to sugar producers.
<http://www.usda.gov/oce/21st-century/report.pdf>

- Joe Outlaw, Ronald Knutson, James Richardson, Robert Schwart, Texas A&M, "Impacts of the 1995 Farm Bill Policy Options on the Dairy Industry" - Analyzes four policy options' (continue current programs, no program with DEIP, no program, no DEIP, and no program, no orders) impacts on representative dairy farms. The incremental changes in the price of milk that result from the options are instructive in terms of some of the options which indeed affect the existence of price supports and the level of exports. The elimination of price supports can be anticipated to reduce the price of milk by \$0.40 - \$0.60 per cwt. DEIP which removes about 2 billion pounds of milk from the domestic market raises the price of milk by \$0.50 - \$0.60 per cwt. Federal milk marketing orders keep the price of milk \$0.20 - \$0.30 per cwt higher but with substantial regional differences. The most resilient areas for milk production by larger scale farms continues to be geographically dispersed in California, Central Texas, Western New York, and Wisconsin; results provide some indication why it has been impossible for the dairy industry to reach a consensus on dairy policy. <http://www.afpc.tamu.edu/pubs/0/80/dairy.htm>

DAIRY-MILC

- Kenneth W. Bailey. Congress's Dairy Dilemma. The Pennsylvania State University. Legislators looking to not only reauthorize the Northeast, but also to expand Compacts into the Southeast and even to create several new Compacts in the same form as the Northeast model. Of primary concern for policymakers in Washington seems to be not whether there will be an adequate supply of milk, but who will provide the product. Compacts are thought to be one strategy for saving the smaller, family oriented farm. The Santorum-Kohl Bill is illustrated as a viable policy alternative to help small family farmers.
<http://www.cato.org/pubs/regulation/regv24n4/v24n4-6.pdf>.
- John Berthoud/Grover Norquist/Tom Schatz. *Moo...ve over Congress*. The Washington Times. An editorial in the perspective of the National Taxpayers Union, Americans for Tax Reform, and the Council for Citizens Against Government Waste. This piece critiques the introduction of a Senate companion bill by Sens. Specter, Clinton, Jeffords and Schumer. The companion bill proposes to change and expand the Northeast Interstate Dairy Compact. The authors indicate that consumers, taxpayers, and dairy farmers are burdened with enormous costs as a result of the compact and that further study of the Compact's history is warranted before proposed any legislation to keep it in tact. During the four years it was in place, the Compact cost New England consumers \$136 million in higher milk prices. Dairy farmers also lost, according to the authors, because most of the Compact's benefits went disproportionately to the very largest dairy producers. The ultimate conclusion is that the National Dairy Equity Act (NDEA) is not a good idea under any circumstances..

<http://www.washingtontimes.com/functions/print.php?StoryID=20040705-095032-6989r>

- Ralph M. Chite, Resource, Science, and Industry Division. *Dairy Policy Issues – Updated July 21, 2004*. Congressional Research Service Reports (National Library for the Environment). (pp. 2-5). In addition to describing the MILC payment background, mechanics, and history, this report includes a table of MILC payment rates (per hundred weight) from December 2001 through January 2003. The federal cost and future of the MILC program is then discussed. March 2004 baseline budget estimates project that the program will cost approximately \$3.8 billion over its four-year life, which according to the report, is significantly higher than the initial 2002 estimates. The report also discusses the future of the MILC program. The report emphasizes budgetary concerns and also presents differing points of view. Some groups would like to see the development of regional compacts, while others say this kind of development would distort dairy markets.
<http://www.ncseonline.org/NLE/CRSreports/04jul/IB97011.pdf>
- Ronald W. Cotterill. Milk Pricing Problems and Solutions: An Essay on the Need for New State Level Milk Price Regulation in the Northeast, with special attention to Connecticut Substitute Bill No. 5642. Food Marketing Policy Center, April 12, 2004. A report indicating that Northeast farmers are losing out to other regions based on their comparatively low milk prices. While retail prices have been high in the Northeast, in some cases over \$1 per gallon, farm prices in the Northeast have been relatively low. This dilemma may cause greater reliance on midwestern dairy products. If the state does not address this situation, the author indicates that dairy farming will continue to decline in New England. Causes of the situation include an imbalance of bargaining power between retailers, processors, and farmers in the Northeast. Cotterill states that regulation that restores a more competitive and fair pricing market at the regional level is necessary.
<http://www.fmpc.uconn.edu/milk/priceprobsol.pdf>.
- Kevin C. Dhuyvetter, John F. Smith, Michael Brouk, & Joseph P. Harner, III, *Dairy Enterprise – 100 Lactating Cows (Freestall)*. Kansas State University – Department of Agricultural Economics. Includes estimated figures for dairy production levels, capital requirements based on herd size and mechanization, feed costs, and returns. Includes a summary chart from 1998 – 2002 of average milk production in pounds per cow per year. Also includes statistics on average income over feed cost per dollars per cow per year. <http://www.oznet.ksu.edu/library/agec2/mf272.pdf>.
- Eric Erba, Candace Gates, Ed Hunter, Karen Dapper, Don Shippelhouse. A Look At California's Dairy Landscape in 2003. California Department of Food and Agriculture A comprehensive report which includes dairy trends and statistics, both in California and other states. Cost summaries and milk production rates are included, along with a historical timeline for the state.
http://www.cdfa.ca.gov/dairy/pdf/DMB_PUB_Ind_Fact_Sheet_2003.pdf.
- D.Robert F. Romain and Daniel A. Sumner. Dairy Economic and Policy Issues between Canada and the United States. *Canadian Journal of Agricultural Economics* 49 (2001) 479-492, August, 2001. (Found through library search). This article compares the milk pricing systems within the United States and Canada. According to the article, the greatest policy difference is that Canada has a managed milk

supply system and the U.S. does not. Both countries practice price discrimination in the form of pooled revenues. An analysis of an open milk trade agreement between the two countries is also conducted. The article's conclusion states that opening the border to dairy trade between the United States and Canada may not increase milk flow. A more likely impact would be the relaxation of quotas in Canada and little effect south of the border.

- G. van der Bijl. EU Agricultural policy after 2000: Has the Environment Been Integrated? The Netherlands – Center for Agriculture and Environment, October 1999 (European Environmental Bureau). Although European in focus, this report presents two possible scenarios for “greening” the milk price CAP. Scenario one indicates that milk prices could actually be too low because they do not fully internalize environmental costs. The solution they present is to reimburse environmental tax revenues. Scenario two involves green recoupling. Some examples of reforms involving recoupling include providing a safety net for commodities subject to uncontrollable market fluctuations, providing environmental and cultural landscape payments for objectively defined services, and rural development incentives with an emphasis on stimulating opportunities for non-agricultural use for farm resources.
http://www.eeb.org/publication/AGRI_POL_after_2000_CLM.pdf.
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<http://usda.mannlib.cornell.edu/reports/nassr/dairy/pmp-bbm/>.
- (Author not cited). Governor's Task Force on Sustainability of the Dairy Industry in Maine. The State of Maine – Meeting Minutes, July 23, 2003. Bob Gray, a registered lobbyist representing 6 Dairy Co-Ops in the Northeast, talks about the MILC program and the possible amendment. The meeting minutes include Bob's list of possible provisions to be included in legislation for September. Gray suggests that these provisions are not necessarily ideal, but have the best chance for approval.
 - Make the bill more inclusive regarding regional marketing areas
 - Create regional dairy boards and give them Class I pricing authority
 - Make any proposed changes market oriented but with some federal support.
 - Create an equitable marketing structure.

- Base milk prices on 45% Class I utilization.
 - Do not use national pooling of Class I receipts
 - Use Commodity Credit Corporation funds to supplement low Class I utilization regions.
 - Stress the significant savings in MILC payment expenditures.
 - Require regions with overproduction to pay the CCC.
 - Extend the MILC program to 2007 so it coincides with the farm bill.
 - Create a fund for disbursement of payments to the Regional Boards.
<http://www.state.me.us/agriculture/co/DTF/723minutes.htm>
- Fred Hutchinson, Thomas A. Brigham, Ralph Caldwell, Timothy J. Dalton, Travis Fogler, Russell Libby, Rep. Joseph Perry, Evan Richert, Lauchlin Titus, Peter Waterman, Gary Anderson, Sen. Bruce Bryant, Dale Cole, Dana Edwards, Gary Hammond, Raymond Nowak, Rep. John Piotti, Charles Spies, David Wadsworth, Sen. Carol Weston. Governor's Task Force on the Sustainability of the Dairy Industry in Maine (*FINAL REPORT AND RECOMMENDATIONS*). The State of Maine, November 18, 2003. This report focuses on the Northeast region and is a revised and final version of the task force report of July, 2003. Current dairy issues within the State of Maine include:
 - The number of dairy farms has dropped dramatically (currently there are 398, down from 655 in 1989)
 - Maine dairy farmers are aging and a significant number are nearing retirement
 - The price of milk paid to Maine dairy farmers is at the lowest point in recent years
 - Maine dairy producers face higher production costs than other regions of the Country
 Final policy recommendations specifically related to the MILC program include:
 - #1 - Increase the cap level on MILC payments to create a supplemental MILC program referred to as "Maine MILC"
 - #2 – Utilize a tiered counter-cyclical pricing mechanism with graduated and declining target prices linked to output levels.
 The overall objective is create a "safety net" for Maine farmers.
<http://www.maine.gov/governor/baldacci/news/events/pdfs/dairy.pdf>.
 - (Author not cited). Demographics in dairying. MCT Dairies, Inc. (source USDA), February 28, 2002. An editorial piece about the USDA's "Milk Production" Annual Survey. Statistics include 97,560 total dairy farms in 2001 with less than 100 cows accounting for 80% of dairy operations and only ¼ of U.S. milk supply. Article indicates that states such as New Mexico, Colorado, Kansas, Indiana, and Michigan all enjoyed milk production growth last year (2001) and could be candidates for expansion in 2002. www.mctdairies.com.
 - (Author Not Cited). Impact of USDA New Dairy MILC Proposed Regulations on Family Farms, by Monthly. Milk Production per Farm. September 12, 2002. A comparative table of proposed MILC payments based on farm size (lbs./Mon). Includes the milk income difference per family farm and farmer "fair choice MILC payments. USDA proposed MILC payments for a farm size of 100,000 is 10,830 and a farm size of 3,000,000 is \$34,800.
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- (Author not cited). MILC's rules unfair to mid-sized dairy farms. Dairy Farmers of America From a DFA point of view, this brief article criticizes USDA and FSA directives on the MILC payment program, stating that these offices are not fulfilling the intent of the law as initiated by Congress. Two main concerns are stated: 1) the current directive penalized the medium-sized dairy operations, costing those farm families about \$48 million in lost revenues per year, and 2) multiple owners are not being recognized by the payment procedures established by USDA. (website newsroom).http://www.dfamilk.com/newsroom/issues/09_MILC.html.
- (Author not cited). Positions on Issues Affecting the Wisconsin Dairy Industry. Wisconsin Department of Agriculture Trade and Consumer Protection (2003) Unknown. In the midst of a declining dairy industry, Wisconsin's Department of Agriculture, Trade and Consumer Protection (DATCP) has positioned itself to: 1) advocate federal farm policies favorable to Wisconsin producers, processors and marketers; 2) advocate modernization and expansion efforts that are economically sound, environmentally prudent and competitively advantageous; and 3) maintain programs of quality certification that enhance the value of the industry's investment with minimal business interference. This paper gives a comprehensive overview of Wisconsin's dairy issues as of 2003. The paper begins with a summary of statistics on the Wisconsin Dairy Landscape, such as Wisconsin Dairy Farms and Average Herd Size. Trends in herd size and distribution is also illustrated. There are also specific analyses on MILC, local and state government, and public/private partnerships. <http://www.datcp.state.wi.us/core/aboutus/leadership/pdf/DATCPDairyPaper5-30.pdf>.
- (Author not cited). Report to Dairymen (July, 2004 Review): *Getting the word out on milk prices*. Alliance of Western Milk Producers. Emphasizes farmer's perspective on being blamed for high milk prices. Cites a study completed by consumer advocacy group, Consumers Union. This study points out that farmers should not be blamed for high milk prices and that the spread between farm and retail prices has continued to grow. Includes a small chart of monthly retail farm price differences through May, 2004 (linear trend line). <http://www.dairyline.com/AWMP/july2004.pdf>
- (Author not cited) WTO Finalizes Negotiating Framework that Includes Export Subsidy Elimination. International Dairy Foods Association – August 2, 2004. Helena

Medina, contact person (202) 220-3507. Article states that the World Trade Organization has agreed upon a framework for negotiations in the Doha Round. Of significance to Dairy - MILC is their statement that the framework contains a number of goals that would significantly affect the dairy industry. Specifically, the article states that several U.S. dairy policies may have to be changed or ended – including the federal Dairy Price Support Program, and the MILC milk program. Please note that the article indicates that both of these programs are considered to be “amber box” domestic subsidies.

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- (Author not cited). 2002 Dairy Producer Opinion Survey. Minnesota Agricultural Statistics Service/MN Department of Agriculture (January, 2003). Provides demographics for dairy operations in the state of Minnesota. Includes a 2007 herd size projection for the state compared to herds in 2001. Statistical tables include number of milk cows by herd size in Minnesota, milk production in Minnesota (1980-2001 and 2007 proj.), dairy farmer operator age, and money investments. The end of the document summarizes dairy farmer comments from an opinion survey concerning topics such as finances, availability of labor, and EQIP accessibility. <http://www.nass.usda.gov/mn/mdadai02.pdf>.

DAIRY-EQIP

- (Author not cited). 2002 EQIP Payments for 1997-2002 Contracts/2002 EQIP Payments for 1997-2002. Grazing Land Practices/2004 EQIP Allocations to States. USDA – Natural Resources Conservation Service (Farm Service Agency). First document lists EQIP Payments for 1997-2002 Contracts by State and total for the year. Total aggregate for 1997-2002 is \$107,455, 501.00. Second document lists EQIP payments specific to land grazing practices for 1997-2002. Total aggregate is \$10,422, 208.00. Third document provides a more current, 2004 view of EQIP payments. Total for all states in 2004 was \$908,279,900.00. <http://www.ncrs.usda.gov/programs/equip/2002EQIP/EQIP1A.pdf>.
- Charles Abdalla & Alyssa Dodd. 2002 Farm Bill: Three Pressing Issues in Conservation. Penn State College of Agricultural Sciences, Department of Agricultural Economics and Rural Sociology. Addresses three primary issues apparent in the EQIP program based on the 2002 Farm Bill provisions. The issues are: 1) will the new EQIP program accomplish environmental goals through greater integration with other public policies and targeting?; 2) will sufficient USDA human resources and other supporting staff exist to deliver programs when and where needed?; and 3) what will be the impact of including larger farms in the EQIP program? <http://www.ewg.org/farm/region.php?fips=53000>.
- Andy Clark. Glickman Announces \$200 Million for New Environmental Program for Agriculture. USDA Press Release - March 23, 1997. An older press release, but it

may be useful for comparative purposes. The release provides the initial geographic funds distribution list for EQIP money by state. The release states that the total EQIP money distributed in the U.S. at that time was \$169,450,000.
<http://www.sare.org/sanet-mg/archives/html-home/18-html/0424.html>

- Noelle G. Cremers. The California Cattlemen's Association (CCA) comment letter to the USDA. CCA – March 12, 2003. A letter of comment regarding the EQIP program. Includes comments about what the CCA likes about EQIP and recommended changes. One recommendation is that funding be based on farm acreage in addition to national priorities. The CCA would also like to see the EQIP Education Program continued. <http://www.calcattlemen.org/pdf/HotIssues/EQIP%20Comments.pdf>.
- (Author not cited). Environmental Quality Incentives Program (EQIP). National Family Farm Coalition. This article describes the National Family Farm Coalition's (NFFC) stance on future changes for EQIP. They support Senator Chuck Grassley's plan to reduce the amount of money farms could get through EQIP. According to the NFFC, Grassley's proposal would redirect conservation funding to family farmers and limit the amount going to large corporations.
http://www.nffc.net/issues/fnf/fnf_8.html.
- Mafruz Khan, Associate Director. Environmental Quality Incentives Program (EQIP). Good Jobs First (Corporate Research Project) – October, 2003. Provides a comparative summary of EQIP fund allocation under the 2002 Farm Bill compared to the 1996 Farm Bill. The author advocates the 2003 Grassley amendment which aims to even out EQIP payments between small and large farms by scaling back the farm payment limitation from \$450,000 to \$300,000. A significant issue throughout this report is whether or not EQIP payments are distributed in a fair and equitable manner. The author states that the Wellstone best illustrates the views of family farmers. Some policy recommendations from the Wellstone Amendment are: 1) restricting large CAFOs from receiving EQIP funds for animal waste structures; 2) prohibiting double payments by preventing those with interests in more than one CAFO from receiving more than one EQIP contract; 3) requiring animal operations receiving EQIP funds to develop and manage a comprehensive environmental management plan to dispose of animal waste; and 4) tripling the annual payment limitation for EQIP from \$10,000 to \$30,000 and increasing the current payment limit per five-year contract from \$50,000 to \$150,000, while retaining current law waiver authority from the annual limitation at the discretion of the USDA http://www.nffc.net/resources/reports/CRP_EQIP.pdf.
- (Author not cited). 2001 Environmental Quality Incentives Program. USDA Natural Resources Conservation Service (NRCS). (sample sites):
NEW HAMPSHIRE EQIP INFO.
<http://www.nrcs.usda.gov/programs/eqip/2001summaries/NHEQIPdo.pdf>. FLORIDA EQIP INFO.
<http://www.nrcs.usda.gov/programs/eqip/2001summaries/FLEQIP%20doc.pdf>
Provides a state by state analysis of EQIP funding to include state accomplishments as a result of EQIP and a projected outlook.
- (Author not cited). 2003 EQIP Contracts for Livestock Operations (State by State Figures). USDA – Natural Resource Conservation Service. The following description is taken directly from the NRCS website: "The information is based on an analysis of FY 2003 Environmental Quality Incentives Program (EQIP) data maintained by the Farm

Service Agency (FSA). The contracts in the FSA database are labeled by Natural Resources Conservation Service (NRCS) field office personnel at the time of contract development, indicating the primary resource concern addressed. If that resource concern is livestock-related, the type of animal is identified: beef, dairy, horses, poultry, sheep, swine, or other. The conservation practices in the database were sorted into three categories: 1) practices typically associated with confined livestock, 2) practices typically associated with unconfined livestock uses, and 3) practices that could be used with either confined or unconfined livestock operations. The purpose of the information is to provide NRCS at the State level a tool to assist them, working with State Technical Committees, to assess their use of EQIP funds and implement strategies to allocate their program funds in a manner consistent with National priorities and State and local resource concerns.”

http://www.nrcs.usda.gov/programs/eqip/PieCharts/LPS_2003_WA.pdf

DAIRY-CSP

- Asya Al-Ashaikh, Clem Clay, John Mathews. *Conservation Security Program: Significance and Impact to Northeast Farms*. Center for Public Policy and Administration, University of Massachusetts Amherst. December 22, 2003. This report analyses the regional impacts of the Conservation Security Program. The report includes opinions about CSP payments. The data contained within the study is derived from both farmers and county or district directors of the American Farm Bureau Federation. The study's conclusion reveals that CSP is an attractive program for both farmers and AFBF directors. According to the study, adding incentives for farmland preservation to the CSP payment system was the most popular policy option. The report contains several charts and descriptive statistics.
http://www.wildfarmmaple.com/csp/CSPsurvey_12.23.03.pdf.
- Dan French, dairy farmer – Minnesota. Statement of Dan French: Minnesota dairy farmer and Land Stewardship Project member. Land Stewardship Project – February 26, 2004 (USDA listening session on the Conservation Security Program). In this letter, French questions the discrepancies between the CSP law passed by Congress and USDA's proposed rule. French proposes that the USDA issue an interim final rule or revised proposed rule. French also provides several ideas for revising the USDA's proposed rules. One suggestion is to get rid of the 90% reduction of the CSP base payments. Other suggestions concerning CSP payments are also described.
http://www.landstewardshipproject.org/opinions/04/opin_040226.html
- (Author not cited). *The Conservation Security Program in the Field: Profiles of Three Iowa Farms. (Farm Profile for the Conservation Security Program – An Organic Dairy Farm)*. The Minnesota Project (February 2003). A case study profiling the Francis and Susan Thicke farm in Iowa. The Thickees have utilized EQIP and also have a strong interest in the Conservation Security Program. The study presents both the Thicke's current practices and possible options for CSP practices. The conclusion states that the Thicke's farm could be viewed as a model for conservation innovation.
<http://www.mnproject.org/csp/iowa%20profiles%20February%202003.pdf>.

VII. SPECIAL CASES: TOBACCO

The Issue

Since the Surgeon General's *Tobacco and Health* report of 1964 showing that tobacco products can be dangerous to human health, policymakers have questioned the use of federal monies to support tobacco operations. As a result, funding support for tobacco operations has declined. The tobacco price support program has been under statutory mandate to operate at a no net cost to taxpayers since 1982. In addition, Congress has restricted USDA activities promoting the export of tobacco products since 1992. In response to these funding constraints and the decreased demand for tobacco products, many tobacco growers have opposed further control measures by government in order to sustain their livelihood. A particularly controversial measure by Congress is the approval of the Fair and Equitable Tobacco Reform, or Title VI of the American Jobs Creation Act. Effective beginning with the 2005 crop year, this Act repealed the federal price support and quota programs. Instead of the previously entitled government quotas, tobacco quota owners and growers are now compensated at a rate of \$7 per pound multiplied by the quota they owned in 2002, paid over 10 years (USDA/ERS, 2005; Tiller, Snell, and Brown, 2004). The quota buyout is to be financed by assessments on tobacco product manufacturers and importers over a course of ten years. The likely outcome of this regulation is that U.S. tobacco operators will now have lower production costs, be free to grow their tobacco anywhere, and be better able to respond quickly to changing market conditions, therefore increasing their competitiveness globally. However, growers will not have the security of price supports and many less-efficient producers will.

The importance and impact of the tobacco buyout to owners and growers cannot be underestimated, as the production and sale of tobacco has historically been a time-honored tradition, especially within the Southeastern region of the United States. Although the number of tobacco farms has significantly declined since 1997, even as late as 2002, a total of 57,000 farms grew tobacco within the United States (USDA, ERS, 2004). What makes the tobacco issue especially salient in today's political climate is whether the federal government should help tobacco growers survive in the midst of government and public concern about their product. Within this broad context are issues

concerning both the health of individuals who choose to purchase and use tobacco products and the workers who produce the product. Because tobacco operations are generally labor intensive, children have often been used as part of the labor pool. For both adults and children working on tobacco farms, exposure to toxic chemicals, both from the pesticides used on the crop and through transmission of chemicals naturally found in the crop is problematic. Another issue germane to tobacco growers is the attempt of tobacco companies to profit at the expense of tobacco farmers. Some tobacco companies, for example, claim that tobacco growers are their “natural allies” so that they can personalize their cause (National Center for Tobacco-Free Kids, 2005). These types of claims typically only serve to harm the reputations of tobacco farmers who may also grow a variety of other crops. There has also been pressure on tobacco growers from the tobacco companies to lower prices.

Background

Historically, the U.S. has been a leader in tobacco quality, exporting, and importing. As a result, consumers did not generally question higher tobacco prices. In the last 25 years, however, foreign tobacco products have increased in quality and have closed the gap between U.S. and foreign markets. Because foreign producers charge less for comparable quality leaf, they have displaced U.S. leaf in the world market. While the U.S. is still the largest leaf importer, Brazil has become the largest exporter. In the midst of concerns over global competition, tobacco growers also were impacted by a decrease in U.S. demand due to evidence showing adverse health risks from using tobacco products. Also, U.S. cigarette manufacturers began using cheaper imported tobacco to manufacture cigarettes in the U.S. In 1998, the Master Settlement Agreement (MSA) was signed by State attorneys general and major cigarette/smokeless tobacco product manufacturers to reimburse states for the cost of treating smoking-related illnesses. This settlement included, limitations on advertising, and the disbanding of tobacco trade organizations. As a result of the cost of the settlement, cigarette manufacturers raised prices by 45 cents per pack. Although tobacco is potentially a highly lucrative crop, growers have been faced with a shrinking quota that makes it difficult to keep their production costs down.

Selected Characteristics of Reform

Any options for reform would ideally have the following characteristics:

- ✦ Safe for the environment
- ✦ Combine goals of tobacco growers, health advocates, and environmentalists (i.e., adequate inspections of operations and staying in a particular location to maintain environment)
- ✦ Increase U.S. competitiveness.
- ✦ Ensure producer safety net
- ✦ Incremental in nature.

Reform Options

Possible options include:

- ✦ Use licenses instead of quotas to control production. Licenses would not be brought, sold, or rented, and therefore would not increase cost of growing tobacco. A license would stay with the producer until retirement or death.
- ✦ Combination of price support and licensing.
- ✦ Lower levels of price support.
- ✦ Higher levels of support, but with the stipulation that conservation efforts will be demonstrated.
- ✦ Maintain status quo (no tobacco program).

Research Group Suggestions

Outreach Group Suggestions

VIII. PEANUT

The Issue

With the passage of the 2002 Farm Bill, the longstanding peanut price support system was removed. In place of supply controls now have access to the same set of supports available to producers of other program crops. The issue is how farmers are adjusting to the elimination of the quota program. Former quota holders are trying to keep their operations profitable while competing with the lower price structure that has been created by the new peanut program. Some former quota owners are having trouble competing. Are quota renters and former producers of “additional” better or worse off? Who has benefited and who has lost from the quota buyout? Production appears to be shifting to new areas, particularly in parts of the Southeast, and has declined rapidly in Virginia-North Carolina and in the Southwest.

Current and timely market price information for peanuts has become elusive due to the small number of producers and purchasers, sporadic sales, and the absence of a market exchange. Marketing has become a big issue. Since 2002, most peanuts have been produced under marketing contracts with peanut shellers. The lack of consistent price information has complicated USDA’s task of establishing the weekly marketing assistance loan repayment rate for peanuts—the market price barometer used to determine the level of potential marketing loan benefits. With fewer sources of price information, peanut growers also have fewer marketing options than producers of bulk commodities, who can spread risk by timing sales based on cash or futures prices. As a result, most peanut farmers are managing price risk by using government marketing loans and by entering into private marketing contracts with peanut buyers. Whether this arrangement is satisfactory enough is a cause for concern.

Background

Until 2002, peanuts were among a small group of U.S. commodities regulated by marketing quotas. As with the tobacco and sugar programs, the peanut marketing quota program originated during the Great Depression as an effort to stabilize grower incomes with supply limitations. The result was higher prices for consumers. With the 2002 Farm

Act, however, the longstanding peanut price support system was scrapped. As part of the new program, peanut quota owners received quota buyout payments, and peanut producers are now covered by the same set of supports—marketing loans, direct payments, and counter cyclical payments—available to producers of many other program crops.

The longer-term impacts of policy change are still playing out in the peanut sector, but some general observations can be made. First, average farm-level prices and planted acreage have declined compared with pre-2002 levels, but appear to be stabilizing. Second, with increased planting flexibility, peanut production is beginning to shift from some traditional, but less productive peanut-growing locations to higher yielding land. Third, for producers affected by the policy change, farm-level revenues have been bolstered by new sources of government revenue from the 2002 Farm Act, other sources of farm and off-farm income, and an upswing in domestic demand. Finally, producers are managing price risk predominantly through the use of contracting and marketing associations.

One clearly optimistic note for the peanut sector has been the rebounding demand for peanuts and peanut products in recent years. In fact, the estimated 10- percent growth of U.S. peanut consumption in 2003/04 was the fastest annual growth in more than a decade, raising food-use demand to record levels. Peanut exports have declined after the 2002 Farm Bill, with the option to market peanut domestically rather than for export.

Selected Characteristics of Reform

Any options for reform would ideally have the following characteristics:

- ✦ Improves risk management programs currently available to peanut producers
- ✦ Promotes the availability of current and timely information to aid farmers' risk management strategies
- ✦ Enhances peanut marketing options
- ✦ Facilitates efficient peanut policy implementation by USDA
- ✦ Ensures competitiveness of peanut producers in the world market

Reform Options

Possible options include:

- ✦ Improving risk management options for peanut producers. Cooperative marketing associations (CMAs) could be sought by most farmers if there is a perception of limited competition among buyers.
- ✦ Modifying crop yield insurance (e.g. allowing growers to insure their crop against the dollar value of contracts).
- ✦ Seeking new markets for peanut exports, including enhancing research on and dietary promotion of peanut and peanut products

Source: This brief is largely drawn from Peanut Policy Change and Adjustment Under the 2002 Farm Act, ERS Outlook Report July 2004, and the article "U.S. Peanut Sector Adapts to Major Policy Changes" by Erik Dohman, Edwin Young, Linwood Hoffman, and William McBride. Amber Waves, November 2004. ERS-USDA.

Research Group Suggestions

Outreach Group Suggestions

IX. CONSERVATION APPROACHES

The Issue

Environmental problems associated with farming are generally less regulated than problems stemming from other economic activity. Voluntary conservation and environmental incentive programs have been part of farm policy since the 1930's. Emerging challenges such as nutrient pollution, pesticide problems, air quality problems, and impacts on threatened and endangered species and other wildlife prompted increased funding for environmental programs in the 1990, 1996 and 2002 farm bills, including the Conservation Security Program, a new "green payment" program for conservation. New solutions are needed to address these challenges in a manner that rewards producers for the environmental benefits that they provide.

Background

The concept of paying farmers to produce environmental benefits resonates with the public. Ideas include shifting some funds from commodity programs into a "green payments" program that links payments to the environmental improvement provided rather than to the implementation of specific conservation practices. One guide is conservation compliance (including swampbuster provisions), which conditions continued receipt of commodity payments on conservation management on highly erodible land and wetlands. It is performance-based, rather than practice-based and serves as a model for future linkages between commodity programs and environmental problems. One significant question is how payments should be structured to actually provide income to farmers. Under WTO rules, payments beyond the cost of implementing conservation practices are not eligible for "green box" treatment.

Selected Characteristics of Reform

Any options for reforming conservation would ideally have the following characteristics:

1. Require a minimum standard of environmental performance (conservation compliance) from any producers receiving payments under any farm program.
2. Target environmental problems (both current and potential, that is, do not discriminate against early adopters) on a watershed or other appropriate place-oriented basis in a cost-effective manner.
3. Restrict land retirement to lands not suitable for crop production or partial fields that provide overwhelming environmental benefits.

4. Use permanent easements or reentry provisions that preclude incentives for repeated idling (i.e., permanent loss of commodity program eligibility) and require conversion to environmentally optimal land cover (i.e., wetlands, native grasses, environmentally useful trees).
5. Consolidate fragmented working-land programs into a single program administered through a single, whole-farm conservation and environmental planning process.
6. Relate green payment levels to the value of the environmental benefit provided, not the cost of achieving it.

Reform Options

Options include:

1. **Retain and Harmonize:** Retain existing discrete conservation programs and “harmonize” their provisions by expanding conservation compliance to include minimal levels of all environmental performance parameters (soil conservation (beyond HEL), water quality (nutrients, sediments, pesticides), air quality, wildlife habitat) and addressing working-land and land retirement incentives to address problems above the minimum level.
2. **Consolidate and Expand Conservation Incentives:** Consolidate existing discrete conservation programs and “harmonize” their delivery through a single whole-farm planning process. Expand conservation compliance to include minimal levels of all environmental performance parameters (soil conservation, water quality, air quality, wildlife habitat).
3. **Expand green payments system:** Replace existing conservation programs with a (simplified) CSP-like green payments entitlement program delivered through a single whole-farm planning process. Fund conservation improvements through a CCC-based entitlement limited to a fixed amount per farm per year. Base payments on the environmental benefit of the improvement, not its cost. Expand conservation compliance to include minimal levels of all environmental performance parameters (soil conservation, water quality, air quality, wildlife habitat).
4. **Design a green program to pay current constituents (or an expanded group of farmer beneficiaries) a base payment of \$X, based on “normal” commodity market conditions, to develop a farm environmental improvement plan.** The plan would have to meet some legislated or administratively set minimum criteria. The payment level for that environmentally beneficial action would be adjusted up as a function of commodity market fluctuations, conditional on having in place and being in *compliance* with one’s own environmental farm plan. A formula would be in place to prescribe the multiples of \$X that would go to recipients as market conditions deteriorate (by defined criteria) from the base, “normal” market conditions. The compliance mechanism would provide the now missing incentive for evolution of a strong and profitable private sector agri-environmental consulting industry. Farmers will pay to have firms help them document compliance, because there is a financial incentive to do so. Government’s role would be to certify firms that could attest to completion of a plan and/or compliance with a plan. This refocuses the public sector away from blow-by-

blow technology-based planning on behalf of farmers, to the guarantor of the adequacy of private provision of environmentally friendly agriculture.

Who Supports It?

1. Unsupported producers
2. Foreign producers—developed countries
3. Foreign producers—less developed countries
4. The poor and their advocates
5. Health advocates
6. Sustainable agriculture
7. Enviros
8. Small farmers
9. Global/free trade advocates

Who Opposes It?

1. Supported producers
2. Consumers-domestic
3. Consumers-foreign
4. Agribusiness-exporters
5. Agribusiness-input suppliers
6. Farm area businesses
7. Commodity groups
8. Farm lenders

Research Group Suggestions

1. Consolidate programs, cost-share for remediation and equipment, transition to CSP; block grants to target to local areas needs
2. EQIP, CSP, technical assistance for IPM, more funds for easements to level U.S. land costs
3. State block grants to deliver funding for conservation
4. Simplify and integrate conservation programs
5. Simplify EQIP, expand and fully fund CSP and WHIP.
6. Simplify Conservation title to address installation of conservation practices with adequate funds for technical assistance
7. Environment designated a priority
8. Permanent farmland protection
9. Outcome based conservation programs
10. Fold conservation programs into renamed CSP
11. CSP-type approach tied to value of the crop and/or cost of land; farmland protection programs with succession planning; adequate technical assistance; cost-share for new environmental sound technologies
12. Streamline and condense conservation programs by function and goal and shift to a CSP-type program using EQIP to help producers become eligible for Tier One payments.
13. All programs should be tailored to regions, support local food security and allow greater flexibility at the local level
14. Payments for conservation and community benefits (maintaining local tax base, watershed protection, farmland and open space protection, etc.) in Commodity

- title. Conservation title simplified to address installation of conservation practices with adequate funds for technical assistance
15. Design a green program to pay current constituents (or an expanded group of farmer beneficiaries) a base payment of \$X, based on “normal” commodity market conditions, to develop a farm environmental improvement plan. The plan would have to meet some legislated or administratively set minimum criteria. The payment level for that environmentally beneficial action would be adjusted up as a function of commodity market fluctuations, conditional on having in place and being in *compliance* with one’s own environmental farm plan. A formula would be in place to prescribe the multiples of \$X that would go to recipients as market conditions deteriorate (by defined criteria) from the base, “normal” market conditions. The compliance mechanism would provide the now missing incentive for evolution of a strong and profitable private sector agri-environmental consulting industry. Farmers will pay to have firms help them document compliance, because there is a financial incentive to do so. Government’s role would be to certify firms that could attest to completion of a plan and/or compliance with a plan. This refocuses the public sector away from blow-by-blow technology-based planning on behalf of farmers, to the guarantor of the adequacy of private provision of environmentally friendly agriculture.
 16. Programs should account for state and local concerns, be watershed-focused, private and voluntary, address public concerns (stakeholder driven), environmentally sustainable and well-coordinated between agencies.
 17. EQIP should be common sense driven (cost effective), cover a broader range of conservation issues, and improve the focus of eligible practices.
 18. CSP should have a broader application.
 19. Conservation funding can’t come at the expense of commodity funding. It must reward good performers rather than bad, be incentive-based rather than regulatory, and provide assistance to farmers to meet environmental regulatory requirements.
 20. Create a crop rotation payment program for peanuts.
 21. Find a more efficient, practical way of distributing EQIP funds.
 22. Encourage appropriate regional technologies that best utilize available funds.
 23. Retain flexibility in programs to encourage innovation.
 24. Increase programs/money for green payments that would help with trade, environment and energy issues.

Outreach Group Suggestions

1. Provide grants or loans to cover producer share of cost-shared long term conservation improvements for black farmers; over life of next farm bill, every black farmers should receive assistance and develop and implement conservation plan to level playing field.
2. Improve access/awareness of conservation programs for black farmers
3. Fund “whole farm plans” that reward conservation.
4. FRPP – make 0 percent cost share for states with high rate of loss by black farmers and make funding mandatory.
5. Waive cost share for eligible new farmers or first time participants.
6. Develop an irrigation development program for small farmers.
7. Ensure demonstration projects are implemented in black community/black farmers to ensure broader adoption of practices/approaches (especially low cost) that are effective for/needed by black farmers.

8. Start up funding and grants for new farmers to apply conservation practices and qualify for cost share programs.
9. Resources to hire minority employees to do outreach.
10. Turn marginal ground into grazing lands and set aside land to be grazing land. Reward or capture multiple values of grazing land.
11. Combine provisions of the Endangered Species Act with the Farm Bill (e.g. Conservation Security Program credit translates into ESA credits)
12. Turn intrinsic values (e.g. environmental amenities) into market values and move towards recognizable markets.
13. Give grazing lands equal or greater footing in the Conservation Security Program.
14. Reform the Conservation Reserve Program to allow for productive use on a regular basis (no payment that year). Make CRP agreements non-transferable to new owners. Remove whole field sign-ups. Develop outcome-based contracts.
15. Improve NRCS third party provider program.
16. Streamline current conservation programs (difficult to understand and coordinate at the individual farm level).
17. Place more emphasis on regional priorities/needs/concerns – establish regional boards to manage program implementation?
18. Use CSP as base conservation program, incorporate other needs but not infrastructure improvements. Use EQIP to enable producers to reach higher CSP levels. Need to give states greater flexibility on implementation through State Technical committees or Departments of Agriculture.
19. Increase payment rate for permanent easements in Grassland Reserve Program. Currently not compatible with state PDR programs. Make GRP practice-based – could it be used to pay protected farms to adopt grazing practices?
20. With FRPP, 50% open land requirement eliminates some farms and should be changed and AGI limitation eliminates some good projects and should be changed. Interpretations of program rules/requirements varies from state to state and year to year. Impervious surfaces continues to be a problem
21. EQIP and nutrient management: relocation and disposal of nutrients is a regional concern, beyond scope of current EQIP. EQIP original legislation allowed purchase of irrigation systems/equipment to increase nutrient uptake. Can poultry and livestock waste be used more effectively for energy production?
22. Are there other ways to further farmland protection? Examples: Provide funding for farm transition plans and education programs for non-farm large landowners. Farm transition considered as a scoring priority for PA PDR program The Delmarva Conservation Corridor authorized in 2002 Farm Bill would have provided a model, but was not funded. PA and NY have aggie bonds (financing for new farmers)
23. P.L. 566 needs to be better funded.
24. Conservation technical assistance needs more flexibility for use and more funding.
25. Include greater regional equity in conservation program allocation formulas:
 - o Cost of land
 - o Cost of practices
 - o Population density
 - o Community benefits-number of people benefiting from practice

- o Farm gate sales per acre
 - o Title I payments
- Give states credit for state conservation program spending

Summaries of Ideas on Conservation Approaches

<p>(1) Title: Summary of 2002 Farm Bill Major Conservation Programs Author: American Farmland Trust</p>

Farmland Protection Program

Provides matching grants to qualified entities (state, local, and tribal governments, and non-profit land trusts) for buying agricultural conservation easements.

- Farm Bill 2002: \$597 million over 6 years
- Funding 1996, for comparison: \$52 Million (\$35M + \$17M).

Environmental Quality Incentives Program (EQIP)

Provides incentives and technical assistance for environmentally sound management practices and infrastructure investments. 60% of funds directed to livestock producers. Evaluation of contract offers based on use of cost-effective conservation practices; use of practices that address national priorities; optimization of environmental benefits is a purpose of the program.

- Farm Bill 2002: \$5.8 Billion over 6 years
- Funding 1996: \$1.33 B

Conservation Innovation Grants

New program created under EQIP that provides matching grants to government and non-profit entities, as well as individuals who are working on projects that involve producers and develop market systems to reduce pollution and or store carbon in the soil.

- Funding: From EQIP funding at the discretion of the Secretary of Agriculture

Wetland Reserve Program (WRP)

Restores and protects wetlands through easements and long-term restoration agreements.

- Acreage : 2.275 million acres (total enrollment)250,000 acres per year max).
- 1996 Acreage Authorization: 1.075 million acres

Conservation Reserve Program (CRP)

Protects highly erodible and environmentally sensitive lands with grass, trees, and other long-term cover, through 10-15 year rental agreements.

- Acreage: 39.2 M acres (10 years)
- 1996 Acreage Authorization: 36.4 M acres

Wildlife Habitat Incentives Program (WHIP)

Provides cost sharing and technical assistance for the development of wildlife habitat on private lands. Increased cost share available for easement terms longer than 15 years.

- Funding: \$360 million over 6 years
- 1996 Funding Authorization: \$61M

Grasslands Reserve Program

Restores and protects native grassland with permanent and 30 year easements (60% of funds) and 10-20 year term easements and rental agreements (40% of funds).

- Acreage: 2 M acres
- 1996 Acreage Authorization: N/A (New Program)

Conservation Security Program

Provides incentives, for the integrated cultivation of environmental services from working agricultural lands. Encourages whole-farm planning to produce linked environmental and economic benefits. Enhanced payments available for regional/watershed projects. No payments available for animal waste handling or treatment facilities.

- Funding \$369 million over 6 years: (CBO Estimate of Entitlement program)
- 1996 Funding Authorization: N/A (New program)

Partnerships and Cooperation

Authorizes the Secretary to use up to 5% of all conservation program resources to enter into stewardship agreements with State and local agencies, tribes, and non-government organizations. The Secretary may designate special projects, as recommended by the State Conservationist, to enhance technical and financial assistance provided to producers and allow flexibility in program implementation to better address natural resource issues.

- Funding: up to 5% of total farm bill conservation funding
- 1996 Funding Authorization: N/A (New Program)

Agricultural Management Assistance

Provides additional assistance to 15 designated States found to be underserved by USDA programs. Producers in CT, DE, MD, MA, ME, NV, NH, NJ, NY, PA, RI, UT, VT, WV and WY are eligible for financial assistance for a range of conservation and risk reduction purposes.

- Funding:\$120 million over 6 years
- 1996 Funding Authorization: Created by the Agricultural Risk Protection Act of 2000.

(2)

Article Title: The Expanding 'Business' of Agriculture: The Four Quadrants of Agriculture Author:
Prepared for Western Ranchers Leadership Summit by Dr. David Carlson

	NATIONAL AND GLOBAL MARKETS	LOCAL, REGIONAL AND STATE MARKETS
CORE BUSINESS [food and fiber]	<ul style="list-style-type: none"> • grain I • livestock • potatoes 	<ul style="list-style-type: none"> • farmers' markets II • community supported agriculture • direct marketing

BEYOND THE CORE	<ul style="list-style-type: none"> • biofuels III • pharmaceutical 'pharming' • carbon sequestration 	<ul style="list-style-type: none"> • hunting and fishing leases IV • agricultural open space • wildlife habitat
FOCUS	Price	Value
STRATEGY	Low Cost Producer ['Walmart strategy']	High/Unique Value Supplier ['Nordstrom's strategy']
CHALLENGE	Universal Access to Information	Documenting & Marketing Value
BASIC PRINCIPLE	Identify and Exercise Comparative Advantage	

1. The 'business' of agriculture is changing—and expanding. It's imperative that agriculture understands the dynamic environment in which it now must operate.
2. Opportunities are expanding beyond the 'core business' of producing food and fiber for national and international markets [Quadrant I agriculture]. These opportunities include familiar activities such as farmers' markets and hunting and fishing leases as well as new products and services such as feedstocks for fuel and carbon storage [Quadrant III] and open space and wildlife habitat [Quadrant IV].
3. Agribusiness markets exist at global and local levels. Global, national, and most state-level markets for standardized, fungible commodities are primarily driven by price. The Internet will accelerate this trend through price transparency. The challenge for both Quadrant I and III agriculture is to reduce costs and improve efficiency relentlessly—a 'Walmart strategy.'
4. Local and regional markets do not compete at the national and international level. They are primarily driven by value, particularly for quality, scarce or unique products—a 'Nordstrom's strategy.' These include farmers' markets [Quadrant II] and products 'beyond the core' such as agricultural open space and wildlife habitat [Quadrant IV]. The challenge is to identify, document, and market the value of these products, particularly those 'beyond the core.'
5. Income from quadrants II, III, IV can supplement—but not replace—income from quadrant I agriculture. Revenues from Quadrants II, III, IV are currently very small when compared to Quadrant I revenue. However, profit margins can be substantially higher. Greater cooperation among producers may be needed to realize these values. The basic principle in all quadrants is to identify and exercise one's comparative advantage. Like any product, Quadrant II, III, and IV products and services will take time, money, and perseverance to develop.

EXAMPLES

1. CLIMATE CHANGE AND CARBON SEQUESTRATION (QUADRANT III)
McCain-Lieberman Bill. The Climate Stewardship Act (S. 342/H.R. 759), was re-introduced by Senators McCain and Lieberman in February 2005. (Their nearly-identical 2003 bill was defeated, although 43 senators supported it.) The bill would establish a market-based 'cap and trade' system for the electric power, industrial, commercial, and transportation fuel sectors to reduce projected U.S. greenhouse gas (GHG) emission levels for 2010 to 2000 levels—and to 1990 levels after 2016. Agricultural and residential sources of GHGs would be exempt. *These sectors can meet a portion of their goals through sequestering carbon themselves or purchasing such credits from agricultural, forestry, and geological sequestering activities.*

State initiatives. At least four states have established carbon sequestration advisory committees in the Intermountain West and Great Plains: Idaho, Wyoming, Nebraska, and Oklahoma. Also, the Iowa Farm Bureau is running a pilot program in which 125 producers are receiving payments for storing carbon. *Does your state have a carbon sequestration initiative? A carbon sequestration potential map?*

2. RENEWABLE ENERGY, OIL DEPENDENCE, TRADE, POVERTY (QUADS I, III)
Agriculture and U.S. energy policy. Significantly expanding the production and use of renewable energy from U.S. agriculture (e.g., biofuels from crops and ag residues, plus wind energy) could constructively address several major national and global policy concerns: increasing dependence on oil, climate change, trade-distorting subsidies, and world poverty. So argue Tim Wirth, C. Boyden Gray, and John Podesta in "The Future of Energy Policy" (Foreign Affairs, July/August 2003.) Their analysis underpins the bold initiative and ambitious goal of the national Ag Energy Project (website www.agenergy.info):
"Agriculture will provide 25 percent of the total energy consumed in the United States by 2025 while continuing to produce abundant, safe and affordable food and fiber."
3. MARKETING CONSERVATION EASEMENT TAX CREDITS (QUADRANT IV)
State programs. Since the year 2000, Colorado landowners may earn a tax credit against Colorado income taxes for the donation of a conservation easement. The tax credit may be transferred and sold to a third party Colorado taxpayer at a discount. In 2003, more than \$16 million in transactions were reported. In 2004, a Colorado landowner could earn a tax credit valued at up to \$260,000 through donating an easement valued at \$500,000 or more. Credits can be carried over for up to 20 years. South Carolina and Virginia have similar programs that allow transfers of state tax credits to third parties.
Federal action? What about establishing a federal conservation easement tax credit transfer program?

Bottom line principle: Agriculture providing solutions to key public policy issues. Bottom line imperative: Better documentation of environmental benefits from agriculture.

(3)
Article Title: Directions for Future Farm Policy: the Role of Government in Support of Production
Agriculture: Report to the President and Congress
Authors: The Commission on 21st Century Production Agriculture
Article Date: January 2001
Source: <http://www.usda.gov/oce/21st-century/report.pdf>
Category: Conservation Approaches

The Commission considered two categories of programs to enhance producers' ability to undertake conservation and environmentally beneficial practices in an economically viable manner: conservation reserve programs and conservation cost-share programs. Additionally, the Commission addressed other conservation and environmental issues affecting production agriculture, citing the need for research in those areas.

The Commission recommends continuation of the current Conservation Reserve Program and advises that any possible increase in the acreage of the program be

designated towards buffer strips, filter strips, wetlands, grass waterways and partial field enrollments.

The Commission recommends continuation of the Environmental Quality Incentives Program (EQIP). Further, the Commission recommends that EQIP be funded at levels initially proposed in the Federal Agricultural Improvement and Reform Act (FAIR Act) of 1996, with those funds dedicated to program activities and not used to pay administrative and overhead costs; which should be funded from additional outlays.

Regarding air and water quality, the Commission recommends conducting research that focuses on:

- Providing voluntary, incentive-based programs to enhance agriculture's positive contribution to air and water quality and, if necessary, structuring a regulatory environment that allows farmers to prosper
- A means to compensate producers who establish environmentally beneficial practices, with funding from a separate environmental program
- Establishing a baseline measure of agriculture's positive contribution to air and water quality
- Priority areas including, but not limited to, carbon sequestration, control of greenhouse gases emissions, manure management, and alternative fuels.

(4)

Article Title: Agriculture Environment Funds: Strategic Plan.
Authors: British Columbia Agriculture Council, Canada
Article Date: Developed in 2001-2002 and implemented in 2003.
Source:
Category: Conservation Approaches

Two Canadian programs provide mainly cost-share funds to producers in British Columbia to address environmental issues. The Agriculture Environment Partnership Initiative is an Agri-Food Futures Fund program created by Agriculture and Agri-Food Canada and the British Columbia Ministry of Agriculture, Food and Fisheries. The fund was established in response to the public's concerns that farming in valley bottoms along rivers and streams were impacting fish and wildlife. The program is administered by the BC Agriculture Council for BC Investment Agriculture Foundation. The Agriculture Environment Sustainability Initiative is a national initiative created by Agriculture and Agri-Food Canada to encourage sustainable production practices in the provinces and territories. In B.C., it is facilitated through trust agreement with the BC Investment Agriculture Foundation and managed by the British Columbia Agriculture Council. The primary funding source for both initiatives is the Canadian government. The provincial governments, agricultural industry and other stakeholders are expected to cost share the various activities proposed under the initiatives.

The desired outcomes and indicators developed by the Canadians may be relevant or at least instructive for U.S. farm policy reform:

Desired Outcomes	Indicators
To ensure programs contribute to the economic health of the industry as well as contributing to environmental goals	Reduced wildlife impacts Wildlife damage compensation paid Value of protected crops Use of conservation tillage
Farms and ranches in compliance with environmental regulations and standards	Adequate manure storage Appropriate animal density for sensitive areas Stream buffering Environmental farm plans in place Reduced complaints and conflicts
Voluntary actions on the part of farmers and ranchers that enhance environmental values in agricultural areas	Riparian area enhancement that minimizes impacts of agricultural operations Streams with enhanced riparian buffers
Long-term, sustained funding of agriculture/environment programs	Partnership Initiative included in extension of Safety Net Agreement
Agencies and citizens provided with an understanding of the important contribution agriculture makes in conserving and enhancing environmental values. Farmers and ranchers provided with an understanding of the needs of the environment.	Public supportive of agriculture's role in environmental protection and enhancement
Policy, tax and regulatory framework that effectively contribute to conservation and enhancement of both agricultural and environmental resources.	Acceptable regulatory and support program in place
Monitoring systems for evaluating environmental health so that future programs can be targeted towards the most critical issues	Projects approved and in place to monitor environmental health indicators

(5)

Article Title: Seeking Common Ground for Conservation: Realizing the Promise of the Farm Security and Rural Investment Act of 2002
 Authors: Soil and Water Conservation Society
 Article Date: 2004
 Source: <http://www.farmfoundation.org/seekingcommonground-swcs.pdf>
 Category: Conservation Approaches

The Soil and Water Conservation Society developed a series of recommendations for the reform of conservation policy and programs in 2001 based on ideas from five regional workshops. They think much remains to be done.

They recommend the following steps to improve conservation:

1. Full funding of conservation programs.

2. Apportion CCC funds for conservation technical and financial assistance at the beginning of each fiscal year to facilitate a more effective delivery of that assistance to farmers and ranchers.
3. Amend the Commodity Credit Corporation charter act to exempt technical assistance from the Section-11 spending cap.
4. Instruct USDA to produce a coordinated investment plan to construct a technical services infrastructure for the 21st century.
5. USDA must increase funding for place-based projects to achieve a critical mass of conservation action that will result in tangible environmental benefits.
6. USDA should implement its financial assistance programs in a way that creates a balanced conservation portfolio of programs.
7. NRCS should take full advantage of the Partnerships and Cooperation provisions of the 2002 Farm Bill.
8. USDA should create a unified planning, contracting and sign-up process for all conservation financial assistance programs.
9. USDA and NRCS should work to improve conservation intelligence as a basis for establishing clear, achievable conservation goals for the nation's working lands.
10. NRCS should quickly and thoughtfully ramp up the Conservation Security Program in a way that emphasizes the program's unique feature and integrates CSP into the conservation program portfolio as the primary source of financial assistance for a base conservation effort.
11. NRCS should take full advantage of the Conservation Innovation Grants Program in the 2002 Farm Bill.

They provide background and additional details for their recommendations.

<p>(6)</p> <p>Article Title: NASDA's 2002 Farm Policy Initiative: Draft Recommendations for an Agricultural "Green Payment" Program</p> <p>Authors: Natural Resources and Environment Committee of the National Association of State Departments of Agriculture</p> <p>Article Date: January 2001</p> <p>Source: http://www.nasda.org/joint/farmbill/greenpayments.pdf</p> <p>Category: Conservation Approaches</p>

NASDA's Committee members have approved some initial key elements for a "green payment" program:

- Emphasize program as a public benefit, instead of a supplemental income program
- Recognize activities that enhance protection of land, water, air and wildlife
- Payments should be based on the costs and benefits of conservation practices
- Contracts and payments should be made on an annual basis
- Provide maximum flexibility for states to set priorities
- Defines the delivery system and/or options
- Coordinates and consolidates total resource management plans
- Protects individual producer privacy and data confidentiality

In general, the "green payment" contract/agreement would (1) identify the natural, environmental, and agricultural resources to be maintained; (2) describe the

conservation practices to be implemented, maintained, or improved on the land; (3) contain a schedule for implementation and maintenance of these “services;” and (4) contain a schedule of payments for each service and/or conservation practice.

Payment levels would be established and based on the level of benefit the management practice offers the environment. The higher the level of conservation, the higher the level of incentive/payment. The Committee did not provide any detailed recommendations on how payments should be determined. Following are some options to consider:

1. USDA has proposed a Conservation Security Program where payment levels depend on the range and comprehensiveness of the practices implemented. Payments are limited to \$30,000 per person.
2. Senator Tom Harkin (D-IA) has proposed legislation which would require USDA to establish criteria for determining the amount of the annual payment based on 14 factors. Some of the factors include: environmental benefits expected, extensiveness of the conservation plan, income loss or economic value foregone resulting from implementation of a conservation plan, optimization of carbon sequestration, extent to which state and local priorities are addressed, and whether the owner/operator is a beginning farmer/rancher. Payments are limited to \$50,000 annually.
3. The Florida Resource Conservation Agreement (RCA) Program offers compensation several ways: (a) direct fees based on the cost of providing each conservation “service” which may be set by adopting private sector market prices for the performance of similar services, plus a reasonable margin for profit; (2) annual per acre stewardship fees based on the service provided and the quality of the resource under management, with higher fees for higher quality resources, such values to be determined and set by USDA.

The “green payment” program should be an integrated approach that is based on a total resource management plan. Farmers and ranchers should have the ability to use the green payment program to consolidate all conservation plans, cost-share programs, best management practices and conservation program into a single agreement. This integrated, comprehensive resource management plan will allow existing and new conservation programs to be more precisely tailored and targeted to the specific conservation needs and opportunities by local communities, watershed areas, and individual farms. Tying diverse conservation programs together will reduce confusion, pool resources from all government entities, and provide efficient management of environmental enhancement activities.

NASDA’s 1995 Farm Bill proposal recommended that all current conservation programs at USDA be eliminated and replaced with one voluntary, incentive-based program called the Environmental Enhancement Investment Program (EEIP). The purpose of the EEIP is to provide technical, educational, and financial investment to encourage the enhancement of environmental stewardship. EEIP would be an integrated approach, based on resource management plans that are site-specific in its application. Program planning would be coordinated between federal and state agencies, must use state and local expertise in development and implementation. The EEIP also provides that if a farmer implements the voluntary plan, he is deemed to be in compliance with other regulatory programs, such as the Clean Water Act and Endangered Species Act. NRCS would be the agency to determine if a resource management plan is sufficient to meet these requirements. Further, the program would provide that if the annual appropriations

for the EEIP are not equal to the annual authorization levels approved in the Farm Bill, the federal government couldn't regulate farmers under those programs. In order to provide the necessary resources to adequately fund farmer implementation of the EEIP program, NASDA's proposal would establish a State Revolving Fund (SRF) providing low or negative interest rate loans that would be run by USDA and state departments of agriculture through a cooperative agreement. Another funding option proposed was an Investment Tax Credit (ITC) for implementation of the resource management plan and management practices, which could be for machinery, practices, or construction purposes.

(7)

Article Title: Toward a Global Food and Agriculture Policy

Authors: Task Force of the Leopold Center for Sustainable Agriculture

Article Date: January 2005

Source: Iowa State University <http://www.leopold.iastate.edu/pubs/staff/policy/globalag.pdf>

Category: Conservation Approaches

The Leopold Center Task Force in this report advocates for a national conservation strategy. In America we depend on farmers to care for our environment, but we don't reward them for this work except indirectly through crop subsidies. Rewarding farmers with crop subsidies does not reward the environment. We have done much better on public land. In the mid-1990s, our tax dollars were subsidizing public land conservation at a rate of about \$2 per acre per year. The Conservation Security Program (CSP) is the beginning of such a system that could deliver a direct subsidy for conservation on private land. A program such as this, with adequate funding, would do more to promote basic conservation on working lands than any program the world has ever seen. At the same time it would lessen distortions in agricultural markets, and it would continue to provide some much-needed income to those who have responsibility for most of America's landscape.

- We could shift \$15 to \$20 billion to a program that would reward landowners for the restored wetlands inserted into the agricultural drainage system, a restored patch of prairie on the steep hillside, a wild woodlot in the ravine, a vegetative buffer strip along the creek, reduced pesticide and nutrient applications near the coldwater trout stream, or a move to a diversified six-year crop rotation, and any of the other conservation practices available.
- We could have a system to market the "conservation commodities" mentioned above if we would begin to consider conservation policy as part of a broader rural development policy. Communities that work with landowners and federal conservation programs to restore land along streams to a natural state have the opportunity to achieve two objectives: one, the protection and enhancement of such "conservation commodities" and two, the ability to market them by providing public access to enjoy these "conservation commodities." This would in turn make such rural communities more attractive places to live and spark not only renewed environmental stewardship, but new economic development measures as well. The delivery system for this national conservation effort in place. The USDA's Natural

Resources Conservation Service is set up to provide technical assistance to every landowner in the country, given adequate staffing. The agriculture extension service, although fading fast in some states, can be resuscitated to provide the needed educational services. Other federal and state conservation agencies could also provide invaluable assistance.

- We should create a National Private Lands Conservation Act—one that recognizes the importance of private lands for our nation’s environmental well-being and that commits us to a national program to support the millions of Americans who want to work to improve the health of their lands.

<p>(8) Article Title: The Power Behind Crop Rotation Authors: Dakota Lakes Research Farm Article Date: January 2005 Source: http://www.dakotalakes.com/power.htm Category: Conservation Approaches</p>

Interest in diversifying crop production systems has increased recently due to many factors. Commodity prices that are low relative to the costs of fertilizer, machinery, labor, and pesticide inputs, have led producers to examine means of reducing these costs. In addition, natural selection pressure resulting from longer histories of tight rotations and monocultures has led to species shifts, resistance, and/or changes in pest’s traditional habits that have resulted in yield losses and/or use of higher priced technologies. Present farm legislation allows use of more diversity without loss of government payments.

The term diversity when applied to crop rotations means more than simply adding another crop or crop type to the rotation. In attempting to increase rotational diversity, an operator needs to focus on how crops interact with each other, with other species present, with the soil, with the environment, and with the operator’s short and long term goals. The reasons for increasing crop rotational diversity include: to spread weather and price risks, to manage weed populations, reduce plant diseases, manage workloads, create the proper environment for subsequent crops, reduce fixed costs per unit of production, access alternative markets, etc.

Producers should strive to achieve levels of diversity that are adequate to attain the goals established for their situation. Having less diversity than needed eventually leads to production and profitability problems. Adding more diversity than needed can reduce efficiency since it increases the number of crops that must be managed, handled, and marketed. Outside influences such as government subsidies, crop insurance, etc. tend to discourage diversity.

The diversity index calculations contained in this publication are intended to demonstrate potential impact differing rotations can have on reducing the probability that weeds, diseases, insects, workload problems, etc. will become a problem. It assumes good management practices are being used throughout the system. It also assumes that factors such as government subsidies, marketing opportunities, crop insurance cover-

age, agronomic information, labeled pesticides, operator knowledge, etc. are equivalent for all crops in the rotation. These assumptions are not necessarily true.

Briefly, the crop rotation diversity index as calculated on this scale increases according to the:

- years separating the same crop type,
- presence of both grass and broadleaf crops,
- presence of both spring and fall sown crops, and
- presence of warm and cool season crops.

Diversity index decreases if crops must be seeded and/or harvested during the same time period. The authors illustrate the concept of diversity index with a sample.

(9)

Article Title: Conservation on Rented Farmland: A Focus on U.S. Corn Production

Authors: Dakota Lakes Research Farm

Article Date: January 2005

Source: <http://www.dakotalakes.com/power.htm>

Category: Conservation Approaches

Does land tenure (ownership vs. leasing) affect a farm operator's adoption of conservation practices? Analysis by USDA's Economic Research Service (ERS) suggests that at least for corn production—which accounted for about one-fifth of all cropland in 1996—the answer is yes. Recent data from the 1996 Agricultural Resources Management Survey (ARMS) indicate that owner-operators are more likely than renters to adopt certain conservation practices for corn production.

Analysis indicated that younger operators, more highly educated operators, those with a larger percentage of total area in corn and soybeans, and those with larger farms were more likely than other farmers to use conservation tillage, as were farmers with land designated as highly erodible. The potential for significant time savings and lower machinery costs encourages adoption by larger farms; time savings may not be as critical for smaller operations. Farmers with improved drainage on their land were less likely to use conservation tillage—fields benefiting from drainage improvements would most likely have soils and topographic characteristics that are less well suited to the use of conservation tillage. Younger farmers, those with less acreage, and those with a smaller percentage of farm area in corn or soybeans were more likely to use at least one of the conservation practices with longer term benefits (contour farming, strip cropping, and grassed waterways). A highly erodible land (HEL) designation as well as high levels of precipitation and cool temperatures also tended to encourage use of these three practices. Small farm operators who had an occupation other than farming, were retired, or had gross sales under \$100,000 and total farm assets under \$150,000 were less likely to use any of the conservation practices analyzed.

Controlling for these non-tenure factors allowed isolation of tenure's effect on adoption of conservation practices. The analysis found that cash-renters were significantly less likely than owner-operators to use conservation tillage, while share-renters behaved much like owner-operators in conservation tillage practices. Both share-renters and cash-renters were significantly less likely than owner-operators to adopt at least one of the practices

with longer term benefits. Farmers' participation in government programs was also considered as a possible factor affecting the use of conservation practices.

These findings on the effects of tenure on conservation practices may have implications for resource use and environmental quality in U.S. agriculture, since NRCS estimates that half of U.S. cropland still needs additional conservation treatment in order to maintain productivity and more than half of U.S. farmland in key agricultural regions is now leased.

Moreover, the Census of Agriculture indicates that a large and increasing proportion of farm landlords are neither engaged in nor retired from any agricultural activity, and that disengagement from farming tends to increase the use of cash leases—the percentage of farmland rented under cash leases has risen in recent decades. As the current farm population ages, historic increases in leasing and in farmland ownership by non-farmers will likely continue. Adoption of conservation practices may be lower in the future than otherwise expected, if renters continue to adopt such practices at lower rates.

(10)

Article Title: Multiple Benefits of Carbon-Friendly Agricultural Practices: Empirical Assessment of Conservation Tillage

Authors: Kurkalova L, Kling CL, and Zhao J.

Article Date: December 2003

Source:

http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&list_uids=14691605&dopt=Abstract

Category: Conservation Approaches

The study empirically estimates the multiple benefits of a subsidy policy that would offer payments to farmers in return for the adoption of conservation tillage, and compares the outcomes of alternative targeting designs for such a policy. The least-cost incentive payment policy schemes are simulated for the State of Iowa by using the data for roughly 12,000 National Resource Inventory (NRI) points. The authors use an economic conservation tillage adoption model to evaluate the costs of adoption and a physical process simulation model (EPIC) to estimate the environmental benefits due to adoption at each of the NRI points. Two targeting options are considered. The authors assess the costs and environmental consequences of a practice-based policy instrument (which maximizes the acres of land in conservation tillage, regardless of its level of environmental benefits) and contrast it to a performance-based instrument (which yields the highest amount of environmental benefits per dollar spent). Carbon sequestration in agricultural soils, reduction of soil erosion by wind and water, and the reduction in nitrogen runoff are considered as possible targets for the performance-based instruments. The authors find that the practice-based instrument provides high proportions of the four benefits relative to the policies that target the benefits directly, especially at the higher policy budget levels. Similarly, they estimate that targeting one of the four benefits individually provides high percentages of the other benefits as compared with the amounts of the benefits obtainable if they were targeted directly.

(11)

Title: Endangered Species Act: Back from the Brink

Author: Environmental Defense

Date: 2004

Source: http://www.environmentaldefense.org/documents/3725_ESA%20Backgrounder.pdf

Category: Conservation Approaches

The Endangered Species Act (ESA), signed in 1973, is the world's most powerful law for protecting and recovering plants and animals headed for extinction. According to the Environmental Defense, for hundreds of species ESA recovery actions have either increased their numbers or halted their downward spiral toward extinction. An endangered plant or animal is defined by the ESA as any species in danger of extinction throughout all or a significant part of its range. The less-imperiled category of "threatened" is applied to species that are considered likely to become endangered in the foreseeable future. As of March 2004, 1,285 U.S. species are listed as threatened or endangered under the law. States with the highest numbers are Hawaii (312), California (290), Alabama (108), Florida (103), Tennessee (96) and Texas (84). Another 558 foreign species receive some ESA protection, although ESA recovery actions are limited to U.S. species. An additional 36 species have been proposed for listing, and yet another 256 "candidate" species are further down the queue, awaiting listing at a time when sufficient resources are available.

Since so many of the country's endangered and threatened species depend on private lands--and many exclusively so--we can't accomplish the ESA's goals by relegating recovery efforts to public lands. Nor can we expect private landowners to accomplish recovery on their own. Although the ESA prohibits landowners from harming endangered animals, it doesn't require them to undertake the beneficial management actions that most species require for recovery. And though most private landowners do care about their land and want to practice good stewardship, they often lack the time and resources to deal with complex regulations and management activities.

Two new conservation tools--Safe Harbor programs and Candidate Conservation Agreements--are demonstrating how regulatory incentives can help a wide variety of at-risk species. Under Safe Harbor agreements, Texas ranchers were willing to have endangered northern aplomado falcons reintroduced on their land, where many pairs now nest. Other landowners are using similar agreements to restore habitat for the gopher tortoise, red-cockaded woodpecker, Schaus swallowtail butterfly and a host of other rare species. As the ESA enters its fourth decade as one of the strongest conservation laws in the world, private landowners will play a crucial role in its future and the species whose lives rely upon the law.

(12)

Title: Endangered Species Act Reform

Author: Farm Bureau

Date: 2003

Source:

<http://www.wsfb.com/GovernmentRelations/Backgrounders/endangered%20species%20act%20reform.htm>

Category: Conservation Approaches

Farm Bureau believes that farmers and ranchers can be at the forefront of the effort to protect endangered species. However, disincentives such as prohibitions against usual farming practices must be removed. In their place there needs to be financial incentives and protections for landowners who find endangered species on their property. Farm Bureau supports better science in making ESA decisions. In addition there needs to be a remedy for farmers who have had threats of third party lawsuits, which result in a lowering of their property values, by environmental law groups who use the third party lawsuit provision as a mechanism to try and make a farmer leave water in the stream.

There have been numerous attempts to reform the Endangered Species Act in the last few years. Many of these proposals sought to treat landowners, particularly small landowners, in a more fair and equitable fashion. In the 107th Congress, Rep. Jim Hanson (R-UT) introduced H.R. 4840, the Sound Science for Endangered Species Act Planning Act of 2002. The legislation would have required that decisions made under the ESA must give greater weight to scientific or commercial data that is empirical or has been field-tested or peer-reviewed. The House Resources Committee did pass H.R. 4840; however, it did not see floor debate in the 107th Congress. AFBF supports this type of reasonable reform to the ESA.

Farm Bureau strongly encourages Congress to make the following changes to the ESA:

- Pass comprehensive reform of the Endangered Species Act that allows species protection efforts to be compatible with landowner rights.
- Compensation for landowners for any reductions in property values or for the loss of use of property.
- Use of incentives for landowners to voluntarily conserve species and habitat.
- Elimination of third party lawsuit provisions without the third party posting bond and paying damages caused by their allegations.
- Promotion of the voluntary critical habitat reserve program, which pays landowners to set aside land for species.
- Requiring listings to be supported by verifiable scientific evidence and peer review. (S. 369).
- Elimination of listings based on subspecies, distinct populations, "isolated populations" of species plentiful in other areas of the United States or abroad.
- The removal of habitat modification from the definition of "take."
- Cost/benefit economic analyses performed prior to listing.

Farm Bureau is also pursuing regulatory changes to the ESA intended to ease burdens on farmers and ranchers. These changes include:

- Voluntary incentive programs for farmers and ranchers.
- Scientific peer review of ESA decisions.
- Requiring full analysis of economic impacts of critical habitat designation.

- Providing full landowner participation in section 7 consultations and on recovery teams.
- Notification to landowners of citizen suits that affect them.

(13)

Title: Candidate Conservation Agreements with Assurances for Non-Federal Property Owners

Author: U.S. Fish and Wildlife Bureau

Date: 2004

Source: <http://endangered.fws.gov/listing/cca.pdf>

Category: Conservation Approaches

Candidate Conservation Agreements are formal agreements between the Service and one or more parties to address the conservation needs of proposed or candidate species, or species likely to become candidates, before they become listed as endangered or threatened. The participants voluntarily commit to implementing specific actions that will remove or reduce the threats to these species, thereby contributing to stabilizing or restoring the species so that listing is no longer necessary. The Service has entered into many Candidate Conservation Agreements over the years, primarily with other Federal agencies, State and local agencies, and conservation organizations, such as The Nature Conservancy. Some of these have successfully removed threats and listing was avoided.

Conservation of fish and wildlife resources on private lands is critical to maintaining our Nation's biodiversity. However, private property owners may face land use restrictions if species found on their lands are listed under the ESA in the future. The potential for future land use restrictions has led some property owners to manage their lands to prevent or discourage colonization of their property by these species. One incentive property owners need to voluntarily promote candidate conservation on their lands and waters is future regulatory certainty. Therefore, the Service and NMFS have finalized a policy to establish standards and procedures for developing Candidate Conservation Agreements with Assurances for private and other non-Federal property owners. This final policy and associated regulations were published in the *Federal Register* on June 17, 1999.

This new approach to Candidate Conservation Agreements provides non-Federal property owners who voluntarily agree to manage their lands or waters to remove threats to candidate or proposed species assurances that their conservation efforts will not result in future regulatory obligations in excess of those they agree to at the time they enter into the Agreement. The Service would provide technical assistance in the development of these Agreements. Property owners may protect and enhance existing populations and habitats, restore degraded habitat, create new habitat, augment existing populations, restore historic populations, or undertake other activities on their lands to improve the status of candidate or proposed species.

The management activities included in the Agreement must significantly contribute to elimination of the need to list the target species. Although a single property owner's activities alone may not be sufficient to eliminate the need to list, the activities, if conducted by other property owners on other necessary properties throughout the range of the species, must be sufficient to eliminate the need to list. In return for the participant's proactive management, the Service and NMFS provide take authorization

through the section 10(a)(1)(A) process of the ESA, which authorizes issuance of permits that will enhance the survival of the species. The permit would allow participants to take individuals or modify habitat to return population levels and habitat conditions to those agreed upon and specified in the Agreement.

(14)

Title: Safe Harbor Agreements for Private Landowners

Author: U.S. Fish and Wildlife Bureau

Date: 2004

Source: <http://endangered.fws.gov/recovery/harborqa.pdf>

Category: Conservation Approaches

This policy's main purpose is to promote voluntary management for listed species on non-Federal property while giving assurances to participating landowners that no additional future regulatory restrictions will be imposed. This final policy and associated regulations were published in the *Federal Register* on June 17, 1999.

Any non-Federal landowner can request the development of a Safe Harbor Agreement. These agreements are between the landowner and the Service or between the Service and other stakeholders (such as State natural resource agencies, Tribal governments, local governments, conservation organizations, businesses). Even if a landowner and the Service develop an Agreement, other stakeholders, at the landowner's request, can participate in many ways in the development phases of the Agreement. However, the assurances only apply to the participating landowners and for lawful activities within the enrolled lands.

Non-Federal landowners have been seeking and insisting on assurances that their voluntary actions will not result in future land-use restrictions. This policy could help all non-Federal landowners interested in using their lands to aid conservation but who also fear subsequent restrictions on land use.

The Service will provide assurances (by issuing an "enhancement of survival" permit) that, when the Agreement's term ends, the participating landowner may use the property in any otherwise legal manner that doesn't move it below baseline conditions determined in the Agreement. These assurances operate with the enrolled lands and are valid for as long as the participant is complying with the Safe Harbor Agreement and associated permit.

In return for the participant's efforts, the Service will authorize incidental take through the section 10 (a)(1)(A) process of the Endangered Species Act (ESA). This permit would allow participants to take individual listed plants or animals or modify habitat to return population levels and habitat conditions to those agreed upon as baseline.

(15)

Title: Saving America's Wildlife

Author: William Snape II and Robert Ferris

Date: 1995

Source: Defenders of Wildlife <http://www.defenders.org/pubs/save06c.html>

Category: Conservation Approaches

The authors contend that solutions to landowners' concerns about endangered species can be found with the present ESA reauthorization process and within related legislation, such as the 1995 farm bill. The following recommendations concern incentives that would encourage wildlife protection on private lands:

- Design programs to provide voluntary incentives, such as: shortening and streamlining the Habitat Conservation Plan process, emphasizing the long-term savings associated with wildlife habitat conversion and creating reward programs for outstanding private land stewardship.
- Enact a "Habitat Conservation Planning Pilot Project" provision similar to that proposed in H.R. 2043 in the 103rd Congress.
- Encourage creative use of mitigation banking and tradable development rights as long as there is a net gain for species protection through habitat purchase, restoration of degraded lands or similar mechanisms.
- Change eligibility criteria for Conservation Reserve Program monies under the farm bill to prioritize payment for properties with habitat for listed and candidate species.
- Alter the tax code to reward private landowners for responsible stewardship and for preserving large tracts of land from generation to generation.
- Provide funding for private landowner and state-government participation in regional habitat conservation planning.

For a discussion of the wide range of proposals in this area, see Defenders' 1993 publication *Building Economic Incentives into the Endangered Species Act*. Other recommendations are

1. Increasing the role of the states - In order to address localized threats to listed species and their habitats, much of the authority now vested in the federal government could be effectively delegated or shared with state governments, provided appropriate safeguards have been taken. While many activities may be accomplished through Section 6 of the ESA as now written, cooperation with states should be reexamined and more specifically delineated. In particular, Congress, by authorizing cooperative agreements with broader powers, should make explicit the duties of states in implementing the ESA
2. Promoting Regional Ecosystem Management Planning - Individual states could administer the plans through the authority transferred in their cooperative agreements. A regional ecosystem-management plan would maintain each state wildlife program's flexibility while guaranteeing that whole ecosystems are effectively protected. This type of regional planning is being tried in California to manage coastal sage habitat and among western states to manage grizzly bear habitat.
3. Providing long-term funding - One of the many complaints of all parties dealing with endangered species is inadequate funding. Developers state that they are

willing to bear their fair share of mitigation costs but do not have sufficient money to cover what they view as society's costs. Small landowners complain that they do not have money to participate effectively in habitat conservation planning. FWS complains that it does not have the staffing available to organize, administer and monitor the planning process. States argue that they do not have sufficient resources to take preventive action before the urgency of recovering listed species occurs. Conservationists point out that current funding is not enough to expedite the listing process and recover imperiled species.

4. Ending harmful subsidies - The most widespread of the federally subsidized, private commercial practices operating on public lands is livestock grazing, which occurs on approximately 270 million acres of rangeland managed by the Bureau of Land Management (BLM), U.S. Forest Service and FWS. In addition to its significant economic costs, livestock grazing exacts a terrible toll on wildlife. Poor grazing management on federal land contributes directly to the decline of roughly a fourth of all species listed under the Endangered Species Act, as well as harming many other species

(16)

News Article Title: Congress Takes Aim at Endangered Species Act

Author: Staff and wire reports

Date: November 30, 2004

Source: Casper Star Tribune

<http://www.casperstartribune.net/articles/2004/11/30/news/wyoming/a0833c9d8837336e87256f5c001d5675.txt>

Category: Conservation Approaches

A bruising battle over reforming the nation's premier law for protecting endangered species is shaping up for the next Congress. The issue is of particular importance to Wyoming and other Western states, where clashes between industry and environmentalists over protecting vulnerable species tend to be more common and more contentious.

Emboldened by their increased majority, House and Senate Republicans said they are optimistic that they can enact major changes to the Endangered Species Act, a goal that has eluded the GOP for more than a decade.

"I see this as one of the best opportunities we've had to achieve some common-sense reform, especially with the new makeup in the Senate," said Brian Kennedy, a spokesman for House Resources Committee Chairman Richard Pombo, R-Calif. "But we're not kidding ourselves that it's going to be easy." Sen. James Inhofe, R-Okla., chairman of the Senate Environment and Public Works Committee, and Sen. Mike Crapo, R-Idaho, chairman of the subcommittee with oversight of the endangered-species law, have also said reform is a top priority for the 109th Congress.

A key reason for the conflict is that about 80 percent of endangered species have most of their habitat on private land, placing the federal government in the position of restricting how private landowners use their property, said Utah State University professor Randy Simmons, an expert on the Endangered Species Act who served in the Reagan administration. "The trick is how do we regulate so that private landowners are

willing to protect species," Simmons said.

Most scientists agree that the chief reason plants and animals become extinct is destruction of the environments, or "critical habitat," that they need to survive. Finding creative ways to compensate property owners for managing land in ways that are hospitable to endangered species could significantly reduce the conflicts, Simmons said.

For example, an environmental group in the Midwest pays farmers to preserve wetlands for ducks and gives the farmers a bonus if they take measures that increase the survival of fledglings.

In the northern Rockies, Defenders of Wildlife has a program that compensates ranchers for sheep and cattle lost to wolves reintroduced to the region.

Clark said she agrees that the act "needs more carrot," but she added that endangered species can't be protected "just by giving money away" -- there has to be a "stick" the government can use when economic pressures driving habitat destruction are greater than any compensation the government could reasonably make.

(17)

Title: Endangered Species Act Reform
Author: Western Governors' Association
Date: 2005

Source: <http://www.westgov.org/wga/initiatives/esa/default.htm>
Category: Conservation Approaches

Comprehensive reform of the Endangered Species Act (ESA) remains a legislative priority of the Western Governors. Western states and communities deal with the effects of proposals and decisions made under the ESA on a daily basis. Therefore, western states urge Congress to undertake comprehensive improvements in the way the Endangered Species Act is implemented and funded.

In their policy resolution 03-15, "Reauthorization and Amendment of the Endangered Species Act of 1973," the governors identified a number of ways that congress can work with the states to improve the act. In short, the Western Governors believe that the Endangered Species Act of 1973 could be made more workable if it were amended to include the following:

- increased role for states;
- increased certainty and technical assistance for landowners and water users;
- increased and stabilized funding for the states; and
- streamlined provisions in the Act, for example, by providing for statewide, multi-species strategies.

WGA convened an Endangered Species Act Executive Summit Dec. 3-4, 2004 to solicit recommendations from a broad array of western interests on ideas for ESA reform..

Legislation

Only one bill was introduced in the 108th Congress dealing with endangered species. However, House Resources Committee Chairman Congressman Pombo has indicated that ESA reform will be a priority for the committee in the 109th Congress. Senator Thomas introduced S.369 last session. The bill would have amended the Endangered

Species Act of 1973 to improve the processes for listing, recovery planning, and delisting. Below are some highlights from the Congress Quarterly.

S 369 Highlights

The measure would change the way the Interior Department considered new species for designation as endangered or threatened. Currently, individuals and groups can petition the government to have a certain species examined for possible inclusion. S 369 would allow Interior to consider only petitions that contained specific information, including:

- documentation from a "published scientific source" that the fish, wildlife or plant was a species;
- a description of historical data and current range and distribution of the species, including methodology and a location where the data could be reviewed;
- an appraisal of the data on the status and trends of all extant populations of the species;
- identification of information contained or cited in the petition that was peer reviewed or field tested; and
- a description of at least one study or credible expert opinion, from a person not affiliated with the petitioner, to support the species' inclusion.

The bill also would expand from one to two the number of public hearings required during the determination process, including at least one hearing in an affected rural area with a population of less than 10,000, if applicable. The measure also would prohibit the Interior Department from finding that a species was endangered or threatened unless the determination was supported by observational data, including that made by a landowner.

If a species was found to be endangered or threatened, the bill would require the department to make public more information on how that determination was reached. It also would require the department to begin developing a "recovery plan" for endangered or threatened species when a species was placed on the list, including criteria under which the species would be removed from the list. Once that criteria was met, the bill would require Interior to publish its intent to remove the species from the endangered or threatened list in the Federal Register.

(18)

Title: Turning Local Visions Into National Solutions

Author: Henry Wallace Agriculture Policy Projects

Date: May 2001

Category: Conservation Approaches

Recommendations:

On farmland preservation and sprawl management -

1. Increase funding for and strengthen the Farmland Protection Program
2. USDA should partner with EPA on farmland protection efforts
3. Allocate competitive grant funds to research on farmland conversions
4. Give states the flexibility to allocate match FPP funds for 10-, 20-, and 30-year assessments
5. Accelerate implementation of the National Spatial Data Infrastructure
6. Define the development threats to farmland
7. USDA should foster strong linkages between farmland protection and agricultural economic development

(19)

Article Title” “Midwest Region Commodities and the Environment”

Author: Various

Source: World Wildlife Fund, American Farmland Trust, & Henry Wallace
Center for Agriculture and Environmental Policy - 2001

Category: Commodities and the Environment (Conservation)

Introduction

With financial support from the Joyce Foundation, the World Wildlife Fund (WWF) supported its Midwest Region Commodities and Environment Project. This project focused on the commodification of agriculture and on the possible entry points and policy interventions that would help the Midwest Corn Belt production system towards environmental sustainability. The main hypothesis was that both resources and producer motivation would need to be increased before environmentally sound production systems can be realized. In addition, the authors thought that the complexity and size of commodity systems requires that the underlying commodity structure be improved.

The methods utilized for the project included three case studies focusing on corn, soybeans, and beef; one small roundtable; and a larger, full-day meeting of experts and stakeholders from a variety of disciplines and perspectives. American Farmland Trust and the Henry A. Wallace Center for Agricultural and Environmental Policy were asked to join the project in August of 2000. These latter participants commissioned five authors who drew information from case studies and their own personal experiences to propose policies that dramatically reduce environmental impacts. Overall, five major obstacles to change in the Midwest Corn Belt system were identified by the project authors:

- Environmental laws regarding agriculture
- Incentives and subsidies
- Lack of systems approach to agricultural policy
- System-wide specialization and lack of diversity
- Concentration and antitrust issues

Workshop Background. In the visioning process, both individual and group visions were obtained. Below is a summary of the group visions:

Table I:

The main issues of concern for the group were clean watersheds, riparian zones, clean air, food safety, biodiversity, and wildlife. Scale and diversity of agriculture and the fact that lands respond differently to policies are also included. The group decided that the economics of agriculture (how much should be produced and the cost of food) should be considered. Technology, such as management tools and techniques, should be incorporated. The group thought it would be important to mobilize the interests of people who eat, drink, and use agriculture. Radical policy was deemed to be rare and it was decided that the path of least resistance should be used. It will be important for the public and farmers to work together instead of letting the public tell farmers what to do.

Table II:

Participants advocate a birds eye view, combined with a systems view. The addition of a recreation and a wildlife corridor is recommended. Regionalization of farms recommended. Promotion of the labeling of food for the public endorsed. Important to consider European Union’s ban on certain items in regard to genetically modified

food production. A fundamental “rethinking” of farm bill proposals will be necessary if the goal is to generate more wildlife services.

Table III:

Three themes were present in the vision for this group: 1) transfers between rural and urban areas as critical; 2) landscapes; and 3) increasing choices and options. The visual was landscapes (farms) along a river leading to the Gulf of Mexico. On the river are cities that need to be connected to rural areas. Urban areas send residents, money and technology to rural areas. The rural areas send back food and environmental benefits. Increasingly, there is biodiversity of trees, wetlands, prairies and a healthy Gulf of Mexico. There is also a social aspect.

Table IV:

There are concentric circles, which represent the nesting of watersheds within watersheds as the central planning unit. The watershed units are driven by groundwater hydrology, not surface water. There is more stability, more buffering of streams and more cattle on grass. The concept of connections is very important. Urban and rural communities are closer together. There is greater diversity and biodiversity among people, types of farms, types of enterprises, products, recreation, and wildlife. Geographic information systems are used to capture the information needed to make environmental decisions.

Obstacles identified by the participants:

Specialization and Lack of Diversity:

- Commodity subsidies reward a lack of diversity.
- Financial and capital risk obstacles.
- Poorly defined, insufficiently researched markets for alternative crops.
- Powerful agricultural interest groups.
- Restrictive range of commodity subsidies.

Environmental Law and Agriculture:

- Lack of integration of production and conservation function.
- Poor trade-offs between incentives and regulations.
- Conservation compliance has been watered down.
- Fragmentation of federal implementation authority and congressional committees.
- Fragmentation of nation-state-local authority for environmental regulation.
- Poor understanding of ecosystem services (necessary for these to be valued).

Lack of Systems Approach to Agricultural Policy:

- Political boundaries do not match resource issues.
- Lack of a common understanding or language for systems approach; difficulty of making systems approach user-friendly.
- Short-term view.
- Program payments.
- Separation of ownership and management.
- Scale.
- Lack of consensus/agreement about what to do.
- Hard to sell complex approach.
- Farmers tend to be organized by commodity.
- Political vested interest in fragmented policies that meet interests (commodity, lobby groups).
- Lack of university systems research-tenure.
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- Political vested interest in fragmented policies that meet interests (commodity, lobby groups).
- Lack of university systems research-tenure.

Incentives and Subsidies

- Commodity focus-entrenched economic interests.
- Who gets paid (fairness versus equality; regional distribution absent; environmental criteria lead to different winners and losers),
- Who pays? Polluter or public?
- Entrenched interests of agribusiness.
- Objections to financial redistribution.
- Protective self-interest or land-owning corn/soybean producers.

Concentration/Antitrust

- Lack of political understanding of issues.
- Subsidy payments encourage excessive farm enlargement.
- No political clout to promote antitrust prosecution.
- Current laws designed to protect consumers rather than maintaining diversity among producers.

Major policy ideas from each group were:

- Cut current farm programs and invest the money in stewardship. \$3 billion a year should go to CSA. Make CRP more flexible. Miscellaneous management tools should be authorized for transition crops. Regional cooperatives should be developed. There should be research and public investment in crops other than corn and soy to help move to more sustainable systems. There should be simultaneous cuts in subsidies and increases in conservation payments.
- Use “Green Payments” to increase the capacity to understand and implement the systems approach. Customize producer-developed plans based on clientele. Create plans that are facilitator-processed, rather than “cookie-cutter.” Ongoing, adaptive conservation management should be encouraged.
- Increase coordination between production and conservation functions/policies over time. Improve balance between incentives and regulation. Regulations should be linked with related incentives. Develop goals and performance standards. Redefine antitrust to include producers with limited market power. Expand marketing choices for producers. Increase cooperative and rural producer marketing assistance. Separate environmental and financial risk. Link program payments to conservation. Develop a three-tier diversification program.

(20)

Article Title: Flexible Conservation Measures on Working Lands: What Challenges Lie Ahead?

Authors: Cattaneo et al.

Date: June 2005, ERS Report No. 5

Agricultural production can have damaging environmental impacts. Although past conservation efforts—particularly land retirement—have helped, agri-environmental problems remain. Because most agricultural land (850 million acres) remains in production, and many agri-environmental problems are the result of small contributions from many widely dispersed farms, improving environmental performance on “working lands” is an important next step.

What Is the Issue?

The 2002 Farm Security and Rural Investment Act, or the 2002 farm bill, shifted U.S. agri-environmental policy from land retirement to conservation on working lands—land used primarily for crop production and grazing. Spending for conservation programs was increased by 80 percent over the previous farm bill, with much of that going to the Environmental Quality Incentives Program (EQIP) and the Conservation Security Program (CSP). While actual funding of these working-land payment programs (WLPPs) is unlikely to reach authorized levels, the scope of working-land conservation is nevertheless expanding. Whether this trend continues in subsequent legislation is uncertain. However, effective design of agri-environmental programs can help stretch the available budget, whatever it might be, in terms of environmental gains or other program goals. But because of the complexity of farm household decision-making and the nonpoint source and site-specific nature of agri-environmental problems, forecasting the benefits of agri-environmental conservation programs is data-demanding and technically challenging.

What Did the Study Find?

Once a working land payment program has been designed—before any producers are enrolled or any contracts are signed—most of what can be done to ensure that program objectives are achieved is locked in place. If funding is limited, program goals are likely to be achieved only if program decisionmakers can anticipate the effect of enrolling a given producer. Producers will apply for participation when the benefits they receive outweigh their costs, which will depend on program details. Program decisionmakers may apply enrollment screening criteria to determine which applicants are enrolled. Participation patterns then determine the environmental and economic outcomes of the program. The trick is to (1) develop a request for proposals that is attractive to producers who can contribute to achieving program goals and (2) develop enrollment screening criteria that use information provided by the applicants to select those best suited

Policymakers and program managers may sometimes need to balance conflicting goals of fiscal conservatism versus conservation coverage, acknowledgment of ongoing stewardship versus reward for all-new efforts, or even resource concerns themselves (managing nutrient runoff, say, versus maintaining soil productivity).

Environmental cost-effectiveness. Programs best designed to maximize environmental gain from a limited budget will:

- Structure the application/enrollment process as a “request for proposals,” which can then be accepted or rejected. This allows program decisionmakers to glean valuable information before committing to a pool of program applicants.
- Rank proposals by benefit-cost criteria. Given a pool of willing participants, information on the practices to be adopted—soil quality in fields to be enrolled, farms’ proximity to surface water, etc.—can be used to assess potential environmental benefits. Contract costs can be gleaned directly from the proposal. Environmental indices, like the Environmental Benefits Index (EBI) in the Conservation Reserve Program, can then be used to rank proposals.
- Promote bidding on financial assistance. In a competitive enrollment program, bidding on the level of financial assistance (e.g., the cost-share rate) can stretch budgets by reducing the cost of individual contracts. For a fixed budget, environmental performance on working lands may be increased by 25 percent with

bidding provisions versus payments based on an (index-based) estimate of potential environmental benefits.

Stewardship payments. Only policymakers can decide the appropriate level of a good-stewardship reward. However, rewarding past performance could mean that there will be less program budget to encourage new conservation efforts. This tradeoff becomes more apparent when new and old practices are eligible for similar payments and when budgets are relatively small. In such a program, eligible stewards will have a greater incentive to accept a given payment for a particular practice they have already implemented than would eligible producers who would be newly adopting the same practice. Given that the number of eligible stewards is the same regardless of the budget level, the proportion of the budget allocated to stewardship payments will increase as the size of the budget decreases. Alternatively, program managers could decide to set aside a fixed proportion of the budget to reward stewards and another portion to encourage new adoption.

- Simulation results indicate that when budgets are capped at \$500 million, a program that provides equal payments for both new and existing practices may achieve only one-fourth as much environmental gain as a program that focuses exclusively on new conservation activities. At lower budgets, given that the number of eligible stewards is still the same, a greater share of the budget goes toward stewardship payments and a smaller share is available to encourage new conservation efforts. A \$250-million program that provides equal payments for new and existing practices may achieve less than one-twelfth as much environmental gain as a program that pays only for new practices.
- Payments designed to reward producers who are already good environmental stewards will limit the cost-effectiveness of achieving new environmental benefits, but may complement other programs that target regions or producers with a high potential for environmental improvement.

How Was the Study Conducted?

A conceptual framework describes the effect of program design decisions on producer application, program enrollment, and, ultimately environmental gain and economic outcomes (e.g., farm income effects). We describe a range of design options available to policymakers and discuss each in terms of environmental gain and equity considerations. We estimate the magnitude—regarding public spending, environmental gain, and change in farm income—for several specific designs using the U.S. Agriculture Mathematical Programming (USMP) model. USMP and environmental simulation models linked to it are used to quantify the potential environmental and economic tradeoffs in selecting among program objectives and design features. The report uses cost-effectiveness to measure program success and compare alternative program designs; i.e., how much environmental gain was achieved by each alternative design for a given level of public expenditure?

Other References on Conservation Approaches

- Specialty Crop Competitiveness Act Amendments of 2005: Title VI – Conservation Enhance Environmental Quality Incentives Program (EQIP)

The SCCA removes the statutory requirements on adjusted gross income levels relating to restricted access to the EQIP program. Due to the high cost of land, inputs, multi crop cycles within a single year, and highly perishable nature of the crops, growers have often diversified their operations that exceed the \$2.5 million adjusted gross income cap. (Provision was in original version of H.R. 3242/S. 2902 of 108th Congress but not enacted)

Sustainability Practices

The SCCA will provide the Secretary with authority to develop voluntary sustainable practices guidelines for producers and processors of specialty crops that may include, but will not necessarily be limited to provisions that enhance producer-to-producer and processor-to-processor education on sustainable practices. The guidelines will demonstrate that working closely with neighbors, communities and other stakeholders to maintain an open dialogue can address concerns, enhance mutual respect and accelerate results. In establishing eligibility for participation in USDA conservation programs, the Secretary may give priority to specialty crop producers who follow such sustainability guidelines. (Provision was in original version of H.R. 3242/S. 2902 but not enacted)

Farmland Protection Program Challenge Grant Act of 2005

Amends the Farm Security Act of 1985 to obligate at least 15 percent of farmland protection funds for cost-share grants (25 percent maximum Federal share) to support eligible State agencies, county, and one or more eligible entities to purchase conservation easements whose title shall be held by the entity rather than the United States. (H.R. 1514 in 109th Congress – Gerlach – R-PA)

Stream Habitat Improvement Program

Amend the Food Security Act of 1985 to direct the Secretary of Agriculture to: (1) establish within the Natural Resources Conservation Service a stream habitat improvement program to provide cost-share payments to *specialty crop* landowners for stream habitat improvement projects; and (2) provide a higher payment share to a landowner who carries out a project in partnership with a nonprofit organization. Give priority for projects that: (1) remove a small dam or in-stream structure; (2) improve fish passage; (3) protect streamside areas; (4) improve water flow; or (5) improve in-stream flow quality or temperature regimes. Authorizes the Secretary to provide a higher payment share to a landowner who carries out a priority project. (S. 218 of 109th Congress – Kohl – D-WI).

Green Mountain National Forest Land Adjustment Act of 2005

Authorizes the Secretary of Agriculture to sell or exchange any right, title, and interest of the United States in and to five specified parcels of National Forest System land in Vermont. Directs the Secretary to offer to convey such land to Bromley Mountain Ski Resort, Inc. Makes sale proceeds available for: (1) the location and relocation of the Appalachian National Scenic Trail and the Long National Recreation Trail in Vermont; (2) the acquisition of land for National Forest System purposes within the boundary of Green Mountain National Forest; (3) the acquisition of wetland within the boundary of the Forest to offset the loss of wetland from the parcels sold or exchanged; and (4) the payment of direct administrative costs incurred in carrying out this Act. Allows the Secretary, using funds made available as described above or otherwise made available for acquisition, to acquire

land or an interest in land for National Forest System purposes within the boundary of the Forest. (S. 425 of 109th Congress – Leahy – D-VT)

AFT Comments on SCCAA of 2005.

EQIP

We would also like to see the \$2.5 million AGI cap removed--for all conservation programs, not just EQIP. To head off resistance, add some language that lowers the annual payment limit on the amount of EQIP funding any farm might receive to \$250,000--which would be consistent with the Grassley/Dorgan bill to limit commodity payments. Consider adding some language that would give some priority funding to farmers within 50 or 100 miles of a metro area - almost assuring that most of the funding would go to specialty crops without really saying so.

Sustainability Practices

Offer matching grants from USDA to any group of producers of the same or similar crop to develop a sustainability handbook -- modeled after the CAWG effort that has received such acclaim.

FRPP

Some small grants to local governments to assist in developing plans for agriculture, clarifying the relationship between states and USDA with regard to inconsistent rules, regulations, easement monitoring, etc.

Urban Edge Farms/Healthy Food

Add section to address the increasing interest among towns and cities in promoting farmers markets, urban food gardens, and farmland preservation for local food production and open space e.g. a small grants program targeted at towns and cities. The grants could be used for an array of activities, including: market support, establishing local food cooperatives for direct marketers, planning for agriculture and farmland preservation, etc.

- Land Stewardship Project, “Prosperous Farms and Healthy Land: Reforming U.S. Farm Policy,” March 7, 2005. - Enact, fund, and properly implement a Conservation Security Program “II” which:
 - a. is simple and accessible to farmers for sign-up nationwide.
 - b. provides per-acre payments that are large enough to be competitive with commodity payments.
 - c. focuses on the actual environmental benefits delivered by farmers, including enhancement of natural resources, not just non-degradation.
 - d. provides for a continuous or annual sign-up, and accepts all farmers who apply and qualify.
 - e. recognizes and rewards proven conservation farming systems like rotational grazing, resource-conserving crop rotations, and systems using low or no pesticide applications.
 - f. retains strong overall payment limits per farmer. Improve the Environmental Quality Incentives Program (EQIP) by enacting meaningful payment limits, prioritizing sustainable, pastured-based livestock and poultry production systems, and ceasing to fund manure storage for CAFOs.

- Land Stewardship Project, “Prosperous Farms and Healthy Land: Reforming U.S. Farm Policy,” March 7, 2005. - Three practical conservation policy priorities to protect the land:

- (1) Encourage a shift to perennial grasses, small grains, and hay by funding and implementing the Conservation Security Program (CSP) so it is available to all farmers and makes per-acre payments competitive with commodity payments.
 - (2) Monitor and enforce conservation compliance, so that any farmer who receives commodity payments must actually be in compliance with soil conservation standards that mean soil loss is being adequately controlled. This is the law today, but it is not enforced.
 - (3) Write a national NRCS practice standard for "Resource-Conserving Crop Rotation," so that farmers who establish and maintain such soil- and water-conserving rotations are eligible for conservation payments, like the CSP new practice payments (which currently they would not be eligible for). The NRCS' "Conservation Rotation" standard is woefully inadequate, recognizing, for example, a corn-soybean rotation as meeting the standard.
- Gary Wolff, "Investing in Clean Agriculture," The Pacific Institute, January 2005 - The innovative proposal will reward farmers who are willing to learn about farming practices that protect water quality," noted Leland Swenson of the Community Alliance With Family Farmers. "It is a voluntary and incentive-based way for farmers to respond to water quality regulations and keep pesticides out of drinking water." The report describes how farmers can be rewarded for learning voluntarily about sustainable agricultural practices. A modest increase in the statewide "mill" fee, now levied on pesticides, is returned to farmers who take a short course on sustainable agriculture techniques and storm runoff management. This helps farmers stay competitive while reducing pesticide use – which will protect human health, preserve the environment, and eventually save taxpayers money by reducing medical costs.
 - Otto Doering Speech, April 20, 2005, "Prospects for the coming farm bill" – Return to targeting in conservation programs – especially EQIP. Stress cost effectiveness more and allow farmers to bid in environmental amenities competitively (as the government of Victoria is doing in Australia). This encourages innovation. Farmers have more opportunities and tax payers more cost effective results – even if fewer farmers get money. Get serious about compliance. Compliance was a great incentive to get farmers to do the right thing. Enforcement is difficult, but at least the rules have to be there. A stick and carrot are both needed to encourage conservation.
 - Green payments—AFT, 2001, Sarah Lynch and Katherine Smith, Wallace Institute, "Lean, Mean and Green. Designing Farm Support Programs in a New Era", Bruce Babcock, et. al, CARD-ISU "Conservation Payments: Challenges in Design and Implementation" - Three key lessons from past conservation programs are (1) making payments based on environmental benefit-to-cost ratios can greatly enhance program efficiency by either cutting the cost of meeting an environmental objective or by greatly increasing the amount of environmental benefits that can be obtained from a given expenditure; (2) adequate verification, monitoring, and enforcement programs will need to be put in place; (3) land set-asides are the most costly way of obtaining environmental benefits. When possible, it is more efficient to encourage productive use of land rather than to retire land. <http://www.card.iastate.edu/publications/DBS/PDFFiles/01bp34.pdf>

- The evolution of Resource Conservation to Environmental Management and Place-based conservation-- SWCS, Realizing the Promise of the Farm Security and Rural Investment Act: How Implementation of the Conservation Provisions Measures Up-- May 2004 The president's fiscal year 2005 budget request, unfortunately, does not keep that promise. Congress should fully fund all USDA conservation programs in fiscal year 2005 and succeeding fiscal years over the life of FSRI. The greatest opportunities to realize the promise of FSRI include: (1) strategic increases in the Conservation Technical Assistance program, (2) a swift, thoughtful ramp-up of CSP to the nationwide entitlement program it was intended to be, (3) full funding for EQIP and WHIP, (4) establishment of a 5-million-acre holdback under the CRP cap for CCRP, CREP, and FWP, followed by a determined effort to accelerate program participation, and (5) enrolling enough acres in WRP each year to achieve the authorized acreage goal by the end of fiscal year 2007. <http://www.swcs.org/docs/RTP.pdf>
- Performance-based environmental and conservation policy-- Carl Zulauf, Brent Sohngen, Lindsey Hoskinson, Allan Lines, "Conservation Compliance: The Once and Future Farm Environment Policy Tool" - A 2001 survey of Ohio farmers indicates that they are more supportive of reduced tillage and buffer strips as Conservation Compliance requirements when policies intrude less on farm management decisions. Revisions in Conservation Compliance should reflect changes in adopting environmentally friendly farming practices that make farmers more willing to implement conservation practice.
- "The Power Behind Crop Rotation" - The diversity index calculations contained in this publication are intended to demonstrate potential impact differing rotations can have on reducing the probability that weeds, diseases, insects, workload problems, etc. will become a problem. The crop rotation diversity index as calculated on this scale increases according to the: years separating the same crop type, presence of both grass and broadleaf crops, presence of both spring and fall sown crops, and presence of warm and cool season crops. http://www.dakotalakes.com/Publications/Div_Int_FS2pg4.PDF
- Katherine Smith, "Retooling Farm Policy" - There is a considerable difference between the geographic distribution of current farm program payments and geographic indicators for estimated water quality damage from soil erosion. Whereas current farm payments are especially concentrated in the plain states, water quality damage from erosion, a major agri-environmental problem, is much more concentrated near coastal areas, and in the Southwest, upper Mississippi River valley, and Southeast. The value of the benefits of tackling agri-environmental problems are greater in areas of population density than in the relatively sparser rural areas where most large farms are found. <http://www.issues.org/issues/17.4/smith.htm>
- Polluter Pays: Internalizing environmental externalities—OECD; Manure management: getting the smell out of farm policy, by Wylie Harris, Texas A&M notes that federal farm payments go disproportionately to the biggest environmental polluters. Livestock manure, an ideal domestically produced organic fertilizer, sits unused in feedlot holding lagoons waiting to become toxic spill.

- Hongli Feng, et. al, CARD-ISU, "Subsidies! The Other Incentive-Based Instrument: the Case of the Conservation Reserve Program" - Paper examines command-and-control (CAC) policies and market-based instruments (MBI) in the context of the Conservation Reserve Program. The CRP, an MBI in the form of subsidies, is by far the largest agro-environmental policy implemented to date. Paper compares the environmental performance of the CRP as implemented to a few counterfactual CAC policies using Environmental Policy Integrated Climate, a bio-physical simulation model. In the context of multiple environmental indicators, no policy alternative emerges as a clear winner.
<http://www.card.iastate.edu/publications/DBS/PDFFiles/03wp345.pdf>
- Paul Faeth, "Growing Green: Enhancing the Economic and Environmental Performance of US Agriculture" - Book reflects the results of a three-year research study during which agronomic and environmental data was collected from 45 physical regions in the U.S. Using a unique economic model, the data was analyzed for comparison of predominant and alternative production systems across the country. http://sustag.wri.org/pubs_description.cfm?PubID=2570
- Scott Swinton, "Policy Alternatives to Achieve a Dramatic Reduction in Environmental Impacts from Midwestern Agriculture" - Proposes 3 policies to improve water quality and wildlife habitat in the Midwest: (1) and improved program of land set-aside and habitat service contracting; (2) a green payment program would target environmental outcomes tailored to regionally established priority areas; (3) newly designed tradable permits programs would offer farmers a means to earn added income by reducing nutrient discharges to water and greenhouse gas emissions to the air.
- John Hosemann, PERC, "Agriculture and the Environment: The Mixed Legacy of Federal Intervention" - A more enlightened approach to policy would be to spend limited taxpayer monies on watershed level research to first define water and land quality problems. If water quality problems are traced directly to farm activity they will have to be dealt with by the farmers in that watershed. A similar approach could be taken for airsheds. Once problems are identified, then private interests working via an updated watershed district model can evolve the educational and technical support to develop bottom-up solutions that respect private property, market-driven incentives, common law and limited taxpayer resources. http://www.perc.org/pdf/hosemann_essay.pdf
- Jeff Schahczenski, Director of Western Sustainable Agriculture Working Group, "CSP part of ending environmental and agricultural battles" - Suggests that Veneman's proposal to focus CSP on priority watersheds limits allocations to certain watersheds and excludes many great conservation farmer and ranchers from participating. Thus, where you live will matter much more than your conservation effort. The USDA obscured entitlement and eligibility and raised false alarms at the OMB.
<http://www.sustainableagriculture.net/SchahczenskiCS.php>
- Tomas Koontz and Katrina Korfmacher, "Community Collaboration in Farmland Preservation: How Local Advisory Groups Plan" - Results from cross-case analysis of seven task forces in Ohio indicate that groups created independently from each other choose different paths to collaborative planning. preliminary causal analysis suggests three independent variables as substantially associated

with what kind of plan the advisory groups create, and what will be the perceived impact of their efforts. More modest expectations, higher levels of community concern about the issue at hand, and existing networks of people focusing on the issue are linked to more “successful” collaborative planning. <http://www-agecon.ag.ohio-state.edu/programs/Swank/pdfs/Community%20Collaboration%20in%20Farmland%20Preservation.pdf>

- "Targeting Environmental Priorities in Agriculture: Reforming Program Strategies," OTA 1995 Study - Environmental quality problems arising out of agricultural activity can be better addressed by targeting priority areas and applying low-cost approaches. (1) Government can use education and technical assistance programs to promote adoption of 'complementary' technologies; (2) encourage farmers to use other management technologies involving cost, such as construction of livestock waste facilities, though economic incentives or disincentives; and (3) program planners should bear in mind that CRP and land-retirement programs are cost-effective only when agricultural production is fundamentally incompatible with achieving environmental objectives. <http://www.wws.princeton.edu/cgi-bin/byteserv.prl/~ota/disk1/1995/9533/9533.PDF>
- Wylie Harris, Food and Society Policy Fellow, "Conservation on the Farm - For Fun and Profit" - Conservation will have a much broader reach if we practice it in, rather than instead of, agriculture. Changes in conservation practices bring a cost in lost farm subsidy dollars. Every acre converted from commodity crops to pasture means a drop in federal farm payments. But the reduced costs and new income streams of some conservation measures can offset those losses, and even bring higher profits. Organic farmers often get premium prices for their crops; even if not, the lower inputs - and the drought resistance conferred by higher levels of organic matter in the soil - can still raise their profits. http://www.foodandsocietyfellows.org/library/uploadedFiles/Conservation_on_the_Farm_-_For_Fun_and_Profit.htm
- "Who Will Pay for On-Farm Environmental Improvements in the 21st Century?" - a compilation of reference materials prepared by the Agricultural Research Service, available on the web at <http://www.nal.usda.gov/wqic/Bibliographies/agecon.html>.
- Classen, et. al. USDA - Economic Research Service. 2001. *Agri-Environmental Policy at the Crossroads: Guideposts on a Changing Landscape*. This article points out that evolving agri-environmental issues, income support policies, and limits imposed by trade agreements may point toward a rethinking of agri-environmental policy. The report identifies the types of policy tools available and the design features that have improved the effectiveness of current programs. Specifically, agri-environmental payments are analyzed with a focus on the issues and trade-offs that policymakers would encounter in designing this type of program. <http://www.ers.usda.gov/publications/AER794/>.
- Heimlich, R. *Summary of Performance-Based Environmental Policies for Agriculture Workshop*. USDA Economic Research Service. A PowerPoint presentation providing comprehensive coverage of the scope of performance-based policies to include various themes such as the definitions of performance

based policies, drivers of the policies, advantages of and barriers to, science: information, monitoring, and modeling, criteria for success, and a Watershed Summary. <http://www.winrock.org/events/wallace/PEPA/Heimlich.ppt>.

- Batie, S. & Horan, R. *Green Payments Policy*. Serves as a basic primer on green payment policy to include the complex issues to be resolved and alternatives and consequences. According to Batie, four fundamental issues are at stake: 1) what are the objectives of the program? 2) who should be paid?, 3) how much should they be paid?, and 4) what should farmers and ranchers be paid to do? One cost effective alternative, according to the author, is the idea of providing a program targeted to only environmental objectives versus one that was in place to serve both income support and environmental service. Another emphasis could be to focus on environmental outcomes versus just the provision of environmental services.
- Klonsky, K. 2003. *How Well Do Green Payments Fit into the Green Box? Lessons from EQIP*. International Conference. "Agricultural policy reform and the WTO: where are we heading?". Capri, Italy. This paper identifies issues in green payment program design by using the Environmental Quality Incentives Program (EQIP) in the United States as a case study. Begins with a clarification of the WTO terminology categorizing domestic agricultural support (i.e., green box, amber box, red box vs. green payments). Gives a comparative table of total support in the U.S., European Union, Japan and "all others" from 1995 – 1999. The figures in this table are labeled either Amber box, Blue box, or Green box. (p. 4). Discusses the question – will bigger mean better for EQIP and does EQIP meet the criteria for a green box program in the eyes of the WTO? The author concludes with the idea that even though the objective of EQIP is to increase environmental production it is almost impossible to avoid impacts on farm income and production.
- Feather, P., Hellerstein, D., & Hansen, L. *Economic Valuation of Environmental Benefits and the Targeting of Conservation Programs: The Case of the CRP*. USDA. Economic Research Service. Explains how CRP has broadened its initial focus on reductions in soil erosion to consider other landscape factors that may also be beneficial. The reports demonstrates how nonmarket valuation models can be used in targeting conservation programs such as CRP.
- Babcock, et. al. 2001. *Conservation Payments: Challenges in Design and Implementation*. Center for Agricultural and Rural Development & Iowa State University Department of Economics. Presents the concept of a new partnership between U.S. taxpayers and farmers in relation to farm legislation. Authors state that "significant reductions in environmental benefits will occur if payment limits or means testing is used to target payments, unless low-income farmers provide the highest environmental benefits".
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wildlife habitat resulting from water or land use changes. The models used consolidate various literature sources regarding information on species-habitat relationships. <http://www.nwrc.usgs.gov/wdb/pub/hsi/hsiintro.htm>.

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- British Columbia Ministry of Agriculture, Food and Fisheries. *Agriculture Environment Funds*. Developed in response to increased pressure from interest groups, the Agriculture Environment Partnership Initiative (AEPI) has laid out the following objectives in their strategic plan: 1) to ensure programs contribute to the economic health of the industry as well as the environment, 2) to assist farmers and ranchers in British Columbia to comply with environmental regulations and standards, 3) to expedite voluntary actions on the part of farmers and ranchers that enhance environmental values in the agricultural areas of the province, 4) to implement measures to minimize the impacts of wildlife on agricultural operations, 5) to establish mechanisms that allow for long-term, sustained funding of agriculture/environment programs and deal with any on-going impacts of environmental projects in farming areas, 6) to encourage effective communication that provides citizens with the knowledge and understanding of the importance of agriculture in enhancing environmental values, 7) to support development of policy, tax and regulatory frameworks that contribute to conservation and the enhancement of agricultural resources, 8) to implement monitoring systems for evaluating environmental health so that future programs can be targeted toward the most critical issues.
- NatureServe Explorer. 2004. <http://www.natureserve.org/explorer/>. This site offers information on more than 55,000 plant, animal, and ecosystems in the United States and Canada. Includes a special section on rare and endangered species.
- USDA – ERS. 2004. *Environmental Compliance in U.S. Agricultural Policy*. The report discusses the general characteristics of compliance incentives, evaluates incentive effectiveness in reducing erosion and explores the potential for expanding

the compliance approach to address nutrient runoff from crop production. The report finds that compliance incentives have deterred conversion of noncropped highly erodible land and wetland cropland, and that compliance approach could be used effectively to address nutrient runoff from crop production.

- ◆ Diakosavvas, D. 2003. *The Greening of the WTO Green Box: A Quantitative Appraisal of Agri-Environmental Policies in OECD Countries*. Presented at the International Conference: "Agricultural policy reform and the WTO: where are we heading?", Capri (Italy), June 23-26, 2003. The paper uses a quantitative appraisal to address the questions of how effective are the Organization for Economic Cooperation and Development (OECD) countries in crafting and implementing agri-environmental policies, what are the main types of payments used in the above countries, to what extent are agri-environmental policies production and trade neutral? And are the green box criteria sufficient to ensure the economic neutrality of agri-environmental programs? The findings suggest that environmental payments are a statistically significant determinant of agricultural production and trade. Green box criteria related to environmental measures are insufficient to ensure the production and trade neutrality of agri-environmental programs.
- ◆ CONSERVATION TITLE (TITLE II) REFORMS (Cardoza Environmental Defense memo)

Establish State Coordinated Conservation Plans: To ensure that California's needs are effectively met by all the farm bill conservation programs, we suggest legislation authorizing state coordinated conservation plans. This legislation could be modeled on the Conservation Reserve Enhancement Program, or CREP, which has allowed states that may not have effectively participated in CRP previously to submit plans to USDA to use CRP in targeted ways. CREP allows states to seek, and USDA to grant, waivers from rules generally applicable to CRP enrollments, including different cost-share and incentive payment rates where needed. Once a state's CREP proposal is approved, USDA continues to administer CRP enrollments through the CREP, but in close coordination with the state.

CREP allows states to target federal dollars to state priorities and leverage them effectively with state and local resources. A provision authorizing state coordinated conservation plans would do the same, only it would apply to all conservation programs, not just CRP.

The bill should establish a procedure for the development and approval of State Coordinated Conservation Plans with meaningful criteria (as with CREP) to ensure that the goals of the program are met and environmental progress achieved. For example, states should have to demonstrate that funds expended through Coordinated Conservation Plans will result in greater environmental benefits than would be achieved otherwise, and that non-federal sources will cover 20% of the overall costs of the proposal. A certain percentage of USDA's conservation program spending each year should be reserved for matching the non-federal share of State Coordinated Conservation Plans as these plans are approved.

A program authorizing the leveraging of federal dollars through State Coordinated Conservation Plans could help solve many of the environmental problems facing California. It may allow California to modify or waive administrative requirements of

programs when those requirements would otherwise make the programs unworkable in California. It would also provide a mechanism for pooling resources, and for coordinating the delivery of technical assistance, including a greater role for university extension personnel and researchers. California would be particularly well-positioned to take advantage of this program, because it imposes higher environmental expectations on its agricultural producers than other states, but it also has the resources to provide the non-federal match and do so effectively.

Expand and Improve the Environmental Quality Incentives Program (EQIP)

The Environmental Quality Incentives Program (EQIP) is the largest conservation program in California. It shares the cost of a wide range of structural and management practices to enhance environmental quality on working lands. Under the 2002 Farm Bill, funds were set aside for Klamath Basin and for a new EQIP subprogram, the Ground and Surface Water Conservation Program, through which California has received funding for water conservation efforts statewide. In addition, in implementing EQIP in California, the Natural Resources Conservation Service (NRCS) has set aside a certain portion of its EQIP dollars each year to address air quality in the Central Valley.

The 2002 Farm Bill authorized \$5.8 billion for EQIP to be spread out over 6 years. This was a significant increase over the 1996 Farm Bill funding of \$1.33 billion. California received \$42 million for EQIP in 2004 and \$57 million in 2005. Despite the increase, EQIP remains oversubscribed in California. For example, \$95 million in projects were unfunded in 2004.

Two factors have limited EQIP's effectiveness in California. First, total funding for the program is insufficient. Second, program mechanics discourage the development and implementation of innovative new systems and technologies. We propose that a California conservation bill include the following provisions to address these limitations.

Increase Funding for EQIP:

The 2002 Farm Bill provides \$1.2 billion for EQIP in FY06, plus an additional \$60 million for the Ground and Surface Water Conservation Program. EQIP had an application backlog of over \$2 billion at the end of FY04. We recommend language increasing the overall funding for EQIP to \$2 billion per year.

Enhance EQIP's Ability to Address Air Quality :

- Require that NRCS, through EQIP, establish regional air quality partnerships with producer organizations, research institutions, state agencies and other interested organizations in air non-attainment regions and where agriculture faces significant threat of regulation. These partnerships would be asked to speed development of trial technical standards, help NRCS review proposals to address these concerns, leverage alternative resources, and coordinate joint efforts.
- Establish a new EQIP subprogram with its own dedicated funding, similar to the Ground and Surface Water Conservation Program, discussed below. This subprogram would support demonstration projects designed to encourage broad adoption of innovative approaches (such as the examples above) to address air quality concerns associated with agriculture. Funding through this new subprogram would be targeted to air non-attainment regions and areas where

agriculture faces significant threat of regulation. The program should require involvement by producer organizations, research institutions, state agencies and other interested organizations, who might contribute funding, participate in the approval and implementation of projects, and assist with more efficient development of technical standards.

Improve the Ground and Surface Water Conservation Program

- Sixty million dollars of EQIP funds are devoted purely to ground and surface water conservation each year. In addition to increasing this amount to perhaps \$100 million per year, we believe it is critical to reform this EQIP subprogram to ensure that proposed projects are ranked according to the extent to which they enhance in-stream flows or provide other specific environmental benefits (such as enhancing wetlands or recharging aquifers). Currently, EQIP ranking criteria give extra points to producers who reduce water use by 25%, regardless of whether the conserved water will be returned to rivers or streams or used to provide some other environmental benefit. Under the EQIP rule, producers receiving funds to improve irrigation efficiency are supposed to realize a net reduction in consumptive use of water, but this provision has not been consistently enforced, so in theory, producers can conserve water using EQIP funds and then sell that water to another producer or use it to put fallowed land back into production. The statute should prioritize expenditures to ensure funds spent under this subprogram produce environmental benefits, thereby reducing regulatory or other pressures on producers.

Improve EQIP's Effectiveness in Addressing Concerns Related to At-Risk Species

- Although NRCS has made at-risk species a national priority for EQIP, little of the program's funding to date has been dedicated to projects focused on conserving and improving habitat for at-risk species, and that has hurt California and other states where at-risk species are a significant concern. The EQIP reforms in the 2007 Farm Bill should include an annual set aside of 10 percent of EQIP funds for wildlife-related projects. Priority should be given to proposals that help producers willing to take voluntary action to restore habitat for federal- and state-listed species and other nationally imperiled species on their land. The bill should also instruct NRCS to work with the U.S. Fish and Wildlife Service and to use technical assistance funding to develop safe harbor agreements that assure landowners they will not incur additional restrictions on the use of their lands if populations of at-risk species increase as a result of their actions.

General EQIP Reforms

Statutory language requiring proposals to be ranked separately by resources of concern—such as air quality, water quality, and wildlife habitat restoration—would significantly improve the EQIP's effectiveness. In fact, separate ranking systems for air quality will likely be critical to the success of regional air quality partnerships such as those we propose above.

In addition to improving ranking systems, EQIP should be reformed to promote cooperative projects involving multiple producers and projects demonstrating innovative technologies and approaches, including but not limited to the regional air quality partnership initiative proposed above. These goals could be accomplished

with bill language requiring that cooperative and demonstration projects receive more weight in ranking systems, and/or through modifying national allocation criteria to award additional funding to states that do the best job of promoting innovation, cooperation, and demonstration projects through EQIP.

Expand the Wildlife Habitat Incentives Program

We propose increasing its funding and modifying the program to ensure that priority is given to projects that assist in the recovery of threatened, endangered and other at-risk species, thereby relieving regulatory pressures on agricultural producers and other landowners.

Expand the Grassland Reserve Program and Farm and Ranch Lands Protection Program

We suggest lifting the funding cap imposed by the 2002 Farm Bill and raising the authorization level to 5 million acres. A majority of these acres should be devoted to permanent easements, the remainder to shorter-term rental agreements promising improvements in management. For easements, priority should be given to offers of the highest biological value; shorter-term agreements should be prioritized based on the extent of improvement in management promised.

Reform the Conservation Security Program (CSP)

CSP links payments to environmental performance. Because CSP is still under development nationally and in California, we only propose that initial legislation do the following:

- Lift the overall cap on spending;
- Include some modest reforms related to the funding of technical assistance;
- Clarify that air quality, water conservation, wildlife, and pest management are resources of concern of equal importance to USDA as soil and water quality.

We also propose that the initial legislation create a companion “greener pastures” program for dairy farmers. The dairy CSP could provide incentives for producers based on a performance-based and therefore flexible criterion that focuses on their ability to limit releases of nutrients and air emissions to the environment.

Expand and Reform the Conservation Reserve Program (CRP) and Wetland Reserve Program (WRP)

More than half of USDA conservation funds continue to finance the temporary or permanent retirement and restoration of land. However, these programs have been underutilized in California because payment is tied to the dry-land, annual rental value of the land, rather than the fair market value of an easement or even irrigated land rates. In addition, CRP acres are poorly targeted and should be prioritized to restore high value habitats, such as riparian buffers. We propose the following.

Expand and reform WRP. Expand the total number of WRP acres (e.g. expansion to 5 million acres would meet the President’s wetland pledge) and reform the program to ensure that “fair market value” for easements is not limited to fair agricultural market value in states where agricultural use may not be the highest and best use of the land; for example, where development pressures are high, as in California.

Reform CRP. Expand the total number of CRP acres and, more importantly, reform CRP to allow irrigated land rates when farmers restore riparian buffers on irrigated land. Specifically:

- Extend eligibility to participate in CRP to marginal pasture land and hay fields that could be restored to at-risk species habitat (i.e., state and federally listed threatened and endangered species habitat, Department of Interior species of concern, and rare and declining habitat).
- Provide the Farm Service Agency (FSA) with the authority to use federal funds for extended contracts (35-year contracts) and permanent conservation easements for enrollments of rare and declining habitat to benefit at-risk species. Farmers can have extended contracts and permanent easements under some CREPs now, but they have to be paid for with state or other non-federal funds. Allowing longer-term contracts under regular CRP for certain high-value practices would not only provide extended protection, it would provide enhanced environmental benefit in many cases, such as restorations that take many years to mature and tree plantings that need management in later years (year 25 or later).
- Clarify that no plantings would be allowed on CRP lands that are inappropriate to the locale, such as planting invasive species or planting trees in areas that were formerly native prairie and did not sustain trees.
- Raise the cost-share rate for mid-contract management from 50% to 75%, and clarify, contrary to current FSA policy, that mid-contract management includes invasive species control.
- Raise the CRP payment limit from \$50,000 per year. In 1985, when Congress created the CRP, it imposed the same payment limits for CRP as were then applicable to commodity programs – \$50,000 per year. Since then, commodity payment limitations have risen while the CRP limit has remained the same. The CRP payment limitation should be increased so that it is more consistent with the payment limitations imposed on commodities.

Reform of Eligibility Rules

The 2002 Farm Bill included a new eligibility rule for conservation programs that is unfair to California and should be changed. This provision, known as the adjusted gross income (AGI) limitation, prevents producers who earn more than \$2.5 million a year from receiving benefits (including conservation as well as commodity payments) under the 2002 Farm Bill, unless at least 75% of their income is derived from farming, ranching, or forestry operations. This may be a reasonable rule for commodity programs, but is a terrible disincentive to larger landowners in many states to participate in conservation programs that are designed, after all, to give producers regardless of size incentives to provide additional public goods. The AGI limitation applies to individual shareholders of corporations and partners in partnerships, so for farms and ranches that are structured in those ways, the burden of collecting and providing confidential income information is enough to discourage such operations from participating in conservation programs they view as a public service. In states like California, where land values are high, and where many producers have off-farm income, the AGI limitation is a major problem. The AGI limitation should be changed so that it does not apply to conservation programs.

- Agri-environment Measures: Overview on General Principles, Types of Measures, and Application. European Commission, Directorate General for Agriculture and Rural Development Unit G-4 - Evaluation of Measures applied to Agriculture, Studies. March 2005

Agri-environment measures are designed to encourage farmers to protect and enhance the environment on their farmland. It provides for *payments to farmers in return for a service* – that of carrying out agri-environmental commitments that involve more than the application of usual good farming practice. Farmers sign a contract with the administration and are paid for the additional cost of implementing such commitments and for any losses of income (e.g. due to reduced production) which the commitments entail. Agri-environment payments are co-financed by the EU and the Member States with a contribution from the Community budget of 85 % in Objective 1 areas and 60 % in others.. Agri-environment measures may be *designed at national, regional or local level* so that they can be adapted to the particular farming systems and environmental conditions, which vary greatly throughout the EU. This makes agri-environment a potentially precise tool for achieving environmental goals.

Agri-environmental measures are diverse, but broadly speaking, one could say that each measure has at least one of *two broad objectives: reducing environmental risks* associated with modern farming on the one hand, and *preserving nature and cultivated landscapes* on the other hand. How these two objectives are expressed in measures depends on the area in question. For instance, in areas with intensive agricultural production measures are often focused on reducing environmental risks (e.g. reducing fertiliser or pesticide inputs, planting winter cover to reduce nitrate leaching etc), but there may also be measures designed to protect nature (e.g. the leaving of winter stubbles in intensive arable areas to provide food for birds). By contrast, in more extensive farming areas, the main environmental risk is generally linked to land abandonment, resulting from the abandonment of labour-intensive traditional farming practices important for the preservation of nature. In such areas measures tend to focus on continuing or re-introducing traditional farming practices with a view to nature protection (e.g. mowing grass rather than grazing it; maintaining hedgerows, etc). But in extensive areas there may also be measures designed to reduce environmental risks e.g. limits on fertiliser applications to grassland. Irrespective of area, there are clearly many measures which will have positive impacts both in reducing environmental risks with respect to soil and water and in protecting nature e.g. maintenance of hedges.

Agri-environment commitments have to go *beyond usual Good Farming Practice (GFP)*. Usual Good Farming Practice is defined as encompassing mandatory legal requirements and a level of environmental care that a reasonable farmer is expected to apply anyway. They are compiled in Codes which Regions draw up and submit to the Commission with their Rural Development Plans. This means that a farmer can only be paid, for instance, for environmental commitments that go *beyond* statutory requirements defined in his regional Code of GFP. More broadly, in application of the Polluter Pays Principle², a farmer may not normally be paid to conform with environmental legislation in place.

Basic principles of agri-environment measures

Agri-environment measures follow a number of basic principles. Many of these principles are essential to the policy achieving its environmental objectives:

- Agri-environment is optional for farmers, who may choose to sign a contract to carry out one or more measures designed to provide an environmental service. This optional nature tends to promote constructive cooperation and a positive attitude to the environment on the part of farmers, in which respect it has an advantage over statutory environmental obligations.
- Agri-environment is a site-specific policy: measures can be tailored to different agronomic and environmental circumstances, which allows for a wide variation in both these parameters throughout the EU and within each Member State. In reflection of their diverse environmental needs, Member States and Regions have chosen to implement the policy in very diverse ways. This site-specificity enables agri-environment to be, at best, a highly refined tool for environmental integration, able to achieve certain environmental results which are not possible for other instruments. For example, Less Favoured Area (LFA) payments can help avoid environmentally damaging land abandonment, but their requirements are generally defined on a wider geographical scale than those in agri-environmental schemes and their primary objective is not environmental, so their environmental impact is less focused. Similarly, the respect by farmers of Codes of Good Farming Practice certainly has a positive environmental effect, but the environmental requirements, by definition, do not go as far as those for agri-environment measures.
- The diversity of measures and environmental situations, and the long lead-in time for some of the environmental effects to be perceivable, requires a structured and long term approach to monitoring and evaluation.
- Agri-environmental contracts compete economically with the most profitable land use so payment levels have to be set sufficiently high to attract farmers to join schemes while avoiding over-compensation. This requires a calculation of appropriate payment levels by Member States.
- Agri-environment payments may only be made for actions farmers undertake above the reference level of mandatory requirements as currently defined by codes of “good farming practice” (GFP). This ensures the respect of the Polluter Pays Principle which requires that private actors have to bear the costs of rectifying or avoiding damage to the environment.
- Member States have a wide degree of discretion in how to implement agri-environment measures. This means that wider contextual and institutional issues as well as attitudes have a great influence on agri-environment measures’ uptake and their environmental effectiveness. For instance, uptake can be affected by the historical levels of agri-environment in the Member State, the attitude to agri-environment at every level, the knowledge base on agri-environment, the budget available (both the EU contribution and money available for co-financing), and the payment levels for farmers selected by the Member State in drawing up its measures¹⁰. The environmental effectiveness of the measures is affected by contextual and institutional factors such as the quality of the scientific basis

chosen for the measures, the extent to which the measures are suited to the area in which they are applied, the professional advice farmers receive on how to apply the measures, and the care with which farmers follow this advice. (Annexed is a logic diagram which shows the main relationships between these various contextual or institutional factors and the uptake and effectiveness of agrienvironment measures).

- Agri-environment is notified to the World Trade Organisation (WTO) under Annex 2 of the Uruguay Agreement which allows agri-environment payments if they are “limited to the extra costs or loss of income involved”. As agri-environment payments are calculated that way, their “Green Box” status of agri-environment is preserved, which implies that agri-environment payments are not considered to be trade-distorting subsidies.

X. TRADE

The Issue

In order to avoid problems with the WTO and multi-lateral trade agreements, farm policy should move away from payments that have the potential to distort international trade (export subsidies, import quotas, production-based payments, etc.) and toward policies that cannot distort trade patterns.

The Proposed Solutions

The 1996 FAIR Act was a major step toward decoupling payments from current production decisions, and eventually phasing them out altogether. Various forms of decoupling are the major reform proposal, but USDA has also recommended increased technology transfer to developing countries as a way of developing greater trade in U.S. agricultural products, as well as a turn toward more value-added agriculture instead of increased trade in bulk commodities.

Background: Expanding Global Markets

With 96 percent of the world's potential consumers of U.S. agricultural products living and buying outside our borders, market access is critically important to U.S. agriculture. Agricultural exports account for almost 30 percent of current farm market receipts. Domestic programs that encourage increased production can lead to increased exports that can reduce prices and incomes in other countries. We need to recognize the importance of expanding markets through trade agreements and understand that the choices we make in our domestic policies affect our capacity to negotiate. Our farm and trade policies must be compatible.

WTO Commitments. To minimize the trade-distorting effects of domestic agricultural support, members of the World Trade Organization agreed to discipline their spending by adopting strengthened rules for the conduct of agricultural trade. Domestic support programs are classified according to their impact on trade flows. The classifications are often described in terms of colored boxes: "green" for those programs that have minimal impacts on trade and do not involve price support, "amber" for programs that distort production and trade and "blue" for production limiting programs as long as they are kept within defined minimal levels. The WTO places no limits on green and blue box

programs. Expenditures under amber box programs are limited. The analogy of a traffic stoplight adequately describes what can be done to support domestic producers under the WTO. Countries can continue ("Go") all green and blue box programs at any level of funding. Countries may continue to use amber box policies as long as the expenditures on them do not exceed set levels ("Proceed with caution"). Disputes over countries' adherence to WTO rules can have profound effects on the way in which domestic support programs are implemented under the WTO. Some examples of disputes that may force changes include: between New Zealand, the U.S. and Canada over the impact of Canadian dairy policy, the complaint by Brazil over subsidies to U.S. cotton farmers, and the case brought by Australia, Brazil and Thailand over the European Union's sugar regime. Countries that lose WTO cases are subject to tariffs being placed on exports of other commodities.

Farm Policy Issues

Some of the issues for the next farm bill that may be affected by U.S. WTO commitments include:

1. Will conservation compliance payments continue to be seen as minimally trade distorting in a way that fits with the green box? Any payment that exceeds the cost of using a conservation practice or the income foregone due to the use of the practice, risks not qualifying for the WTO green box. Developing countries have recently argued that even green box payments can be trade distorting if they are large enough.
2. Will the opportunity to update base acreage for direct payments under the 2002 Farm Bill affect the programs placement in the green box?

	GREEN	AMBER	BLUE
Definition	Agriculture-related subsidies that fit in WTO's green box are basically policies that are not restricted by the trade agreement because they are not considered trade distorting.	Agriculture's amber box is used for all domestic support measures considered to distort production and trade.	There is no red box. The blue box is used for what the organization's trade agreement considers production-limiting programs.
Qualifying Payments	<ul style="list-style-type: none"> • Production Flexibility Contract Payments (PFC) • Environmental and 	<ul style="list-style-type: none"> • Price Supports and Marketing Loans • Non-crop specific support does not 	<ul style="list-style-type: none"> • Direct payments under a production-limiting program. • The U.S. currently

	conservation programs not tied to production, research funding, inspection programs, domestic food aid including food stamps, and disaster relief.	count toward amber box limits if the total of this support is less than 5% of the value of agricultural production. Market loss assistance payments, crop insurance, credit programs and irrigation subsidies fit this category.	has no programs that are reported in the blue box. Pre-1996 deficiency payments were reported in this category. <ul style="list-style-type: none"> U.S. counter-cyclical payments may qualify here under the August 2004 framework provided bases and yields are not updated again
Comments	➤ Green box subsidies have to be funded by government- not through higher prices to consumers.	➤ U.S. farmers could consider themselves ticketed for running a red light if the amber box subsidies exceed pre-set reduction commitment levels.	➤ Blue box opponents want it eliminated because they say the payments are only partly decoupled from production and so have trade-distorting impacts. Defenders say the blue box is an important tool for supporting and reforming agriculture, and for achieving certain non-trade objectives and argue that it should not be restricted as it distorts trade less than other types of support.
There are exemptions for the boxes, including those designed to help make developing countries more trade competitive.			

Who Supports It?

1. Unsupported producers
2. Foreign producers—developed countries
3. Foreign producers—less developed countries
4. Health advocates
5. Sustainable agriculture
6. Taxpayers
7. Fiscal conservatives
8. Enviros
9. Small farmers
10. Immigration reformers
11. Farm workers and their advocates
12. Global/free trade advocates

Who Opposes It?

1. Supported producers - AGCA President Larry Mitchell supports the recommendations of Daryll Ray in "Rethinking US Agricultural Policy"
2. Consumers-domestic
3. Consumers-foreign
4. Agribusiness-exporters
5. Agribusiness-input suppliers
6. Farm area businesses
7. The poor and their advocates
8. Commodity groups
9. Farm lenders
10. Crop insurance industry

Research Group Suggestions

1. Encourage a national effort to support domestic production over international (COOL – country of origin labeling – needs to have mandatory implementation).
2. Increase programs/money for green payments that would help with trade, environment and energy issues.
3. Retain WTO compliance at the same level as other countries. Can we convert Amber commodity payments to green commodity payments and keep the same amount of money?

Outreach Group Suggestions

Summaries of Ideas on Trade

- ◆ Daniel Sumner at UC Davis, a paid consultant for Brazil but served as Assistant Secretary for Agriculture during the first Bush Administration, analyzed the impact of the cotton program on world markets. If the US shipped about 41% less cotton, world prices would rise about 12.6%. He believes that some of the goals subsidies are supposedly aim at -- preserving rural communities for example -- could be achieved much more effectively using other programs.
- ◆ Upcoming book, Trade Policy and Global Poverty by William Cline presents trade strategy to reduce global poverty, introduces a new index, "poverty intensity of trade" for gauging the potential impact of rich country trade policy on the global poor.
- ◆ Alternative U.S. and EU Sugar Trade Liberalization Policies and Their Implications, Review of Agricultural Economics March 2002, vol. 24, no. 2, pp. 336-352(17), by Koo W.W. - This study analyzes the impacts of alternative trade liberalization policies in the United States and the European Union (EU) on the U.S. sugar industry. A global sugar policy simulation model was used for this analysis. The study results indicate that the U.S. sugar industry may be able to survive if both the United States and the EU liberalize their sugar trade. However, if only the United States eliminates its sugar programs, all U.S. sugar-producing regions would be threatened.
- ◆ Trade Reform and the Corn Market: Prospects for the World Trade Organization Negotiations on Agriculture, Review of Agricultural Economics Spring/Summer 2001, vol. 23, no. 1, pp. 47-67(21), by King J. - Using an econometric model with commodity data over the past 20 years, this article predicts the likely impact of potential World Trade Organization (WTO) trade pacts on corn trade distortions. Despite the WTO setback in Seattle, the vast global benefits resulting from agricultural trade liberalization in corn alone validate a continued push towards freer trade.
- ◆ "Food Aid program called unfair," Washington Times - American food aid seen by critics as distorting trade, displacing local or other foreign-made products with US surpluses. EU, Australia asking WTO to curtail commodity-based food-aid with new rules. During FY 2004, US spent about \$2.03 billion on all major food-aid programs, including food purchases, transportation and other costs.
<http://www.washingtontimes.com/business/20040627-112638-8093r.htm>
- ◆ John Ikerd, U of Missouri, "New Farm Bill and US Trade Policy: Implications for Family Farms and Rural Communities" - Notes that the same forces that have shaped U.S. farm policy have shaped U.S. agricultural trade policy. The *Agricultural Establishment* encouraged U.S. farmers to support the North American Free Trade Agreement (NAFTA), with the promise of free access to growing markets of agricultural products in Mexico and Canada. The *Agricultural Establishment* told U.S. farmers that agriculture should be brought under the General Agreement on Tariff and Trade (GATT), with the promise of greater access to growing markets worldwide. The NAFTA became law on January 1, 1994 and the World Trade Organization (WTO), with greatly expanded authority over agricultural trade, replaced the GATT on January 1, 1995. Most American

farmers embraced these new trade agreements, along with “Freedom to Farm” bill of 1996, because the Agricultural Establishment convinced them that “global free trade” was their key to prosperity.

<http://www.ssu.missouri.edu/faculty/jikerd/papers/FarmBill.html>

- ◆ Technology transfer to boost U.S. exports—USDA, Food and Agricultural Policy: Taking Stock for the New Century (<http://www.usda.gov/news/releases/2001/09/0185.htm>) - Trade policy must focus on gaining access to foreign markets through tariff reduction and the elimination of trade distorting subsidies and be supported by domestic policy that meets our existing international obligations and provides ample latitude to pursue ambitious goals in trade negotiations. Domestic farm policy must not inadvertently reduce competitiveness at the same time that trade policy seeks expanded export market opportunities for farmers
- ◆ Value-added agriculture--Decoupling and undistorting— Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture, Mary E. Burfisher and Jeffrey Hopkins (editors) Agricultural Economic Report No. (AER822) 2003 (<http://www.ers.usda.gov/publications/aer822/aer822.pdf>) - The payments have improved the well-being of recipient farm households, enabling them to comfortably increase spending, savings, investments, and leisure but with minimal distortion of U.S. agricultural production and trade. However, farm operators may retain as little as 40 percent of program benefits due to higher land rents.
- ◆ Ethan Baker and Brian Riedl, Heritage Foundation, "Federal Farm Subsidies" and "Another Year at the Federal Trough: Farm Subsidies Jumped Again in 2002" - shows how farmers enjoy substantially higher incomes, greater wealth, and lower consumption spending than most Americans, and 2/3 of farm subsidies going to 10% of farmers and agribusinesses. Targeting farm subsidies to poor family farmers would save up to \$98 billion over 10 years.
- ◆ Brian Wright and Bruce Gardner, AEI, "Reforming Agricultural Commodity Policy" - book, pending
- ◆ Directions For Future Farm Policy: The Role Of Government In Support Of Production Agriculture, The Commission On 21st Century Production Agriculture, Report To The President And Congress, January 2001 - The Commission endorses the comprehensive U.S. position on trade as tabled in the WTO in June 2000.³ In addition, the Commission stresses the need for agriculture negotiations to be part of a comprehensive negotiation conducted in a single-undertaking approach. The Commission also recommends that Congress grant the President so called "fast track" negotiating authority for the new round of trade talks. It is the view of the Commission that negotiations on trade reform within the WTO are not the appropriate forum for the negotiation of environmental and labor issues. <http://www.usda.gov/oce/21st-century/report.pdf>
- ◆ Brazilian WTO cotton case--R. Dennis Olson, Institute for Agriculture and Trade Policy, "WTO cotton ruling: Time to reevaluate bankrupt US agriculture and trade policy" - WTO ruling provides unique opportunity to debate whether we want an agriculture policy that supports independent family farmers or one that subsidizes

multinational agribusiness cartels. The US is no longer the only dominant force for setting world prices, and there are new developments to consider, like the emergence of bio-energy producing crops is one of the biggest drivers for domestic demand.

- ◆ Peter Rossett, Food First, "The Multiple Functions and Benefits of Small Farm Agriculture in the Context of Global Trade Negotiations" - Describes the negative effects on small farmers and rural economies of the WTO Agreement on Agriculture and calls for recognizing the multi-functionality of small farms. According to this viewpoint, agriculture produces not only commodities, but also livelihoods, cultures, ecological services, etc., as such the products of farming cannot be treated in the same way as other goods.
<http://www.foodfirst.org/pubs/policybs/pb4.html>
- ◆ Bruce Babcock, CARD-ISU, "Trade, Wealth Creation and American Agriculture" - The United States could replace all non-recourse loans with recourse loans, which would eliminate the government-provided incentive to keep producing corn, soybeans, cotton, and wheat when the market is signaling farmers to cut production. We all know what the reaction to this proposal would be, but developing countries are looking for such a demonstration.
http://www.card.iastate.edu/iowa_ag_review/fall_01/trade.aspx
- ◆ U.S. Sugar Program "a Four-Time Loser", CATO Institute - Dan Griswold of Cato's Center for Trade Policy Studies says the U.S. sugar program is a four-time loser for the American people. The program hurts American families by driving up sugar prices at the grocery store. It hurts American taxpayers by charging them to buy and store excess domestic production. It hurts American workers by forcing confectionary companies offshore where they can buy sugar at lower, world prices. And it hurts American exporters by blocking efforts to negotiate agreements to lower tariff barriers abroad. A good place to start dismantling this failed program would be to end all taxpayer support for the loan and storage program. - <http://www.free-trade.org/new/new.html>
- ◆ A Sticky State of Affairs: Sugar and the U.S.-Australia Free-Trade Agreement by Aaron Lukas, Feb. 2004 - Washington uses preferential loan agreements and tariff rate quotas to keep the price Americans pay for sugar artificially high. Although there is fluctuation, U.S. consumers paid roughly twice the world market price for sugar between 1985–1998. The gap has been even worse in recent years. Currently, a March 2004 contract on domestic sugar costs 20.35 cents per pound while the same sugar at world prices costs 5.74 cents per pound. Under the US and Australian FTA, in order to get a pass on sugar, U.S. negotiators were forced to overlook Australian protectionism on wheat, broadcasting and audio-visual services, and other areas. The exclusion of sugar from free-trade disciplines sets a terrible precedent that emboldens other import-competing producers to demand similar favors. The U.S. dairy market, for example, will also be spared from full competition under this FTA.-
<http://www.free-trade.org/pubs/FTBs/FTB-008.pdf>
- ◆ America's Bittersweet Sugar Policy by Mark Groombridge, Dec. 2001 - Historically, the United States produced about 55 percent of the sugar it consumed and imported 45 percent. Largely as a result of current U.S. sugar

protections, today the United States produces 88 percent of domestic consumption and imports only 12 percent. Freeing just the U.S. market would boost global demand and raise world prices by 17 percent, increasing the annual export earnings of developing nations by \$1.5 billion. -

<http://www.freetrade.org/pubs/briefs/tbp-013es.html>

- ◆ Dan Griswold, Sugar Program Brings Bitter Taste to Holiday Season, January 2002 - As with other protectionist policies, the biggest losers are consumers. American families pay for this program every time they buy Christmas candy and cookies, a bag of sugar, soft drinks or candy bars. A report by the U.S. General Accounting Office estimated that, in 1998, American sweetener users paid an extra \$1.9 billion a year because of the U.S. sugar program. - <http://www.cato.org/dailys/01-07-02.html>
- ◆ "World Bank Study: Trade liberalization would shut down two-thirds of EU's grain and oilseed production" - The results of the study's "pro-poor" scenario show a decline in total European crop and livestock output of 30% below baseline projections for 2015 (2003, p. 54). Based on the more detailed information in the Iowa State study, we have estimated the crop-output implications from the World Bank's reported total drop in EU agricultural output of 30% for the pro-poor scenario. In the case of wheat, this estimation approach suggests that the "pro-poor" trade liberalization agenda would result in the loss of 26.4 (60%) million of Europe's 44 million wheat acres by 2015. This would transform Europe from a net wheat exporter to a significant importer. In other grain production, Europe would lose 18.9 (70%) of its 27 million acres devoted to the production of other grains. With oilseeds the corresponding drop would be 6.2 million acres (59%) out of 10.5 million acres. In both of these cases Europe would be a significant net importer. <http://apacweb.ag.utk.edu/weekcol/173.html>
- ◆ Prestegard, S.S., 2003. *Multifunctional agriculture, policy measures and the WTO: The Norwegian case*. A main view in this paper is that a clear distinction between policies with the aim to improve farmers' income or welfare situation and policies to enhance a multifunctional agriculture. The author contends that multifunctionality cannot justify market support, but that insulating policies with these multiple objectives protect the domestic market from international fluctuations in prices. The paper suggests that there is a need for international rules.
- ◆ Trade Assistant Adjustment Act of 2002: What this bill does is create a TAA program better tailored to the needs of farmers, ranchers, and fishermen. Basically, the program creates a new trigger for eligibility. Instead of having to show a layoff, the farmer, rancher or fisherman has to show commodity price declines related to imports. The trigger is different, but the program serves the same purpose. It is basically a hybrid of the TAA for workers and TAA for firms programs, using parts of each that make sense for agricultural producers. It assists the farmer, rancher or fisherman to adjust to import competition, to retrain, to obtain technical assistance, and to have access to income support to tide them over during the process. And the income support is capped and is subject to gross income limitations to make sure that the program is not being abused.

- ◆ Article Title: “The Fabric of Their Lives: U.S. Cotton Subsidies Make the Poor Poorer” - Jacob Sullum, November 10, 2003, Reason Public Policy Institute

Sullum’s article questions cotton subsidies in light of what he sees as a discrepancy between the subsidies given to cotton producers and the U.S. market value of the crop. Sullum states that according to a 2002 report from Oxfam International, cotton subsidies amounted to nearly \$4 billion per year. The market value of the crop, however, only amounted to \$3 billion. Since American cotton farmer’s insist, according to Sullum, that they cannot make ends meet without subsidies, the end result has been that the American cotton supply has been artificially boosted, and there has been a decline in prices world-wide.

For the “well to do” cotton farmers in the U.S., this scenario may not be problematic. However, to some of the African American farmers in countries, such as Mali, Benin, and Burkina Faso, it means that they may have to go out of business. Sullum explains that Mali’s finance minister has indicated that the American farm system is hypocritical in that overseas farmers are encouraged to play by the open market, but U.S. cotton producers continue to rely on government subsidies. The article estimates that \$1.7 billion in taxpayer money has been spent on Step 2 of the cotton competitiveness program. This program enables companies that export American cotton or use it to make yarn, fabric, sheets, towels, and clothing, to receive payments. While Sullum states that the U.S. refusal to reconsider cotton subsidies resulted in the collapse of the World Trade Organization (WTO) talks in Cancun and resulted in Brazil and other countries filing a complaint with the WTO, The National Cotton Council maintains that the subsidies are essential in order to make U.S. cotton competitive.

XI. MARKETING

The Issue

How should farm policy be shaped to expand marketing opportunities for farmers of non-commodity crops to enhance their income? Options include enhancing market research, developing markets and strengthening existing ones, linking communities with local agriculture, developing cooperatives, encouraging marketplace recognition of good farmland stewardship, and shifting some of the government payments from bulk commodities to nutrition and insurance programs that support fruit, vegetable and livestock producers. Trends in these directions include the 2004 Women, Infants and Children (WIC) Reauthorization Act, which authorized several programs to purchase and/or promote fruit and vegetables. The Specialty Crop Competitiveness Act (SCCA) authorized \$54 million annually for five years to enhance the competitiveness, both domestically and internationally, of each state's fresh produce crops. The 2002 Farm Bill allocates \$200 million a year for the purchase of fruit and vegetable products in school lunches and breakfast programs and \$50 million per year for the Department of Defense Fresh Program. The proposed amendments to the plum pox infestation regulations initiated by USDA's Risk Management Agency and the Michigan and Pennsylvania peach growers provide for additional compensation to direct marketers from areas affected by the plum pox quarantine. Despite these efforts, there remain few options that combine the efforts of government with those of farm entrepreneurs in order to benefit farmers and specialty crop producers. Additionally, there is little support for producers of commodity crops, such as dairy, to assist with direct marketing and value-added ventures.

Background

Farm program payments and other farm policies are concentrated in the hands of producers of program commodities such as rice, cotton grain, sugar, and dairy producers, while growers of fruits, vegetables, nuts, nursery products and other specialty crops receive little assistance from the federal government. The consolidation and integration of production that keeps pace with the integration of the retailing industry is leaving behind a dwindling number of small and middle-sized farms. Small cooperatives suffer from fragmented marketing. Many farms lack the financial and technical

resources to conduct research and assess the marketplace. They struggle to market their products through innovative and creative ways that involve their local communities and like-minded growers. In addition, there is little government support for healthier foods, such as fruits and vegetables, and little support for direct marketing of fresh produce, farmer's markets, and organic production methods that some feel are healthier than the mainstream food system. Overseas markets pose a huge challenge for specialty crops growers due to the perishable nature of their products. Farmers selling directly to consumers have received only minimal compensation from USDA's Animal Plant Health Inspection Service or Risk Management Agency when their products are compromised by natural disasters such as freeze, hail and infestations.

Selected Characteristics

Any option for reform would ideally have the following characteristics:

1. Mitigates market concentration and ensure greater competition and the development of new markets to create more options for farmers and more opportunities to capture greater value for their production
2. Re-aligns government payments to support specialty crop producers and enhance their competitiveness through technical and/or financial assistance
3. Supports the improvement of post harvest technology and handling and marketing of convenience-oriented, high-valued specialty crops
4. Supports local food producers and distributors using a mix of federal and state resources
5. Encourages consumption of healthy produce from farms that use sustainable agricultural practices
6. Stimulates cooperative development and strengthens direct marketing efforts for specialty crop growers as well as commodity crop farmers, such as dairy farmers
7. Enhances risk management programs for the benefit of limited-resource farms and specialty crop farmers
8. Provides differential price treatments for crops lost due to natural disasters for farmers selling directly to consumers
9. Supports research and development of value-added agricultural products

Reform Options

1. Shifting subsidies from bulk commodities to at least include fruit and vegetable production
2. Enhancing nutritional assistance programs to provide incentives for healthy choices and make them more accessible
3. Increasing funding for programs to improve access to farmers markets, expand direct marketing opportunities, and develop value-added products. A percentage of Federal and state agricultural assistance programs can be targeted for local food producers and distributors

4. Working to achieve meaningful reform at the World Trade Organization on trade disparities that disadvantage U.S specialty crop producers
5. Increasing funding for the Market Access Program that aids in the creation, expansion and maintenance of foreign markets for American agricultural products, especially specialty crops
6. Developing cooperatives as a marketing tool through which producers can counter trends that concentrate production in the operations of the large producers.
7. Initiating future crop insurance pilot programs (insuring fruits, vegetables, etc) that could measure the feasibility of insuring nontraditional crops, that may help to establish proven yields of fruits and vegetables
8. Supporting the amendment to plum pox compensation regulations [in *Federal Register* June 1, 2004, Vol. 69, No. 105] as an important precedent for direct marketing farmers
9. Increasing USDA-AMS funding for projects that assess the feasibility of niche marketing opportunities, such as Federal-State Marketing Improvement Programs

Research Group Suggestions

1. Block grants to target local areas needs
2. Block grants for market development
3. All programs should be tailored to regions, support local food security and allow greater flexibility at the local level
4. State block grants for market development and food security programs
5. Regionally based program for perishable commodities that includes support for infrastructure
6. Require local school districts to give first priority to local products
7. Establish a federal right to produce, process, transport and market agricultural products.
8. Increase value-added/direct marketing opportunities at the farm and other markets.

Outreach Group Suggestions

Summaries of Ideas on Marketing

(1)

Article Title: Summary: Specialty Crop Competitiveness Act of 2004

Date: December 7, 2004

Source: <http://www.floridafarmers.org/news/articles/competitiveness.htm>

Category: Marketing Options

IRVINE, Calif., Dec. 7 /PRNewswire/ -- The United States Senate today passed the Specialty Crop Competitiveness Act authorizing the nation's first major federal funding program for the fresh produce industry and setting a potentially historic precedent.

" The Specialty Crop Competitiveness Act of 2004 approved by the Senate will authorize \$54 million annually for five years to enhance the competitiveness of each state's fresh produce crops. The majority of the funding will come in the form of block grants through the state departments of agriculture. None of the millions of dollars earmarked for the produce industry will come in the form of direct subsidies. Instead, the funding will assist the produce industry through technical assistance, specialized research programs, regulation review, education, improved food inspection facilities and similar initiatives. The bill was cosponsored by 122 members of Congress representing farmers across the nation who grow more than 250 fresh produce crops ranging from lettuce in California to melons in Arizona to blueberries in Maine.

Some of the features of the Act include: the quantification of the clean air benefits of specialty crops; the enhancement of fresh produce quality; new crop protection tools and pest management systems; and research on the impact of foreign pest and disease invasions and effective solutions. Funding is also to be directed to educate the public regarding nutrition as well as food safety. Technical assistance for specialty crops will be increased and plant inspection programs will also be bolstered."

(2)

Article Title: A Time to Act: A Report of the National Commission on Small Farms

Authors: U.S. Department of Agriculture-National Commission on Small Farms

Article Date: January 1998

Source: http://www.csrees.usda.gov/nea/ag_systems/pdfs/time_to_act_1998.pdf

Category: Marketing Options

The Commission developed a comprehensive set of recommendations. Following are specific recommendations regarding market development and cooperative development.

On Market Development. USDA should pursue increased efforts to mitigate market concentration and ensure greater competition and the development of new markets to create more marketing options for small farmers and more opportunities to capture greater value for their production. USDA has a wealth of rural development business loan, grant, and technical assistance programs that could be channeled to facilitate "agricultural development."

The Commission recommends that USDA's Rural Business – Cooperative Service (RBS) financial and technical assistance programs should give priority to assisting the development of cooperatives that will primarily benefit small farm operators. Such

cooperatives should be organized to ensure that a large share of their throughput originate from small farms. The financial and technical assistance programs provided by RBS should support value-added efforts where value-added strategies meet the following criteria:

- a) the profit from the value-added business operation flows to and within the community;
- b) wage-laborers are paid a living wage;
- c) the value-added initiative results in more local and regional competition in the cash market, not less;
- d) value-added initiatives should create incentives for resource stewardship and reward sustainable production systems. For example, processing of food-grade oats would provide a market incentive for including oats in a corn-soybean rotation. Another example is natural beef raised using intensive rotational grazing methods that maintains marginal land in pasture instead of row crops.
- e) Value-added initiatives should pursue specialty and differentiated products where small farms and small food processing firms will have a competitive advantage over larger firms. The research conducted according to Recommendation 1.1, Policy Goal 1 should be used to inform the financial and technical assistance priorities of RBS. When defining “value-added,” the following concepts should be included:
- f) value-added includes direct marketing, by individual farmers or a network of farmers allocating the marketing tasks among the network to achieve economies of scale and share responsibility;
- g) the addition of value must result through application of farmers’ own time, management, skills, and production resources to produce products with less capital expenditures and purchased inputs or to produce products of higher intrinsic value (identity-preserved grains, organic grains, free-range chickens, natural beef, food-grade corn) for which buyers are willing to pay more.

On Cooperative Development. Cooperatives are a marketing tool through which producers can build market power on their behalf. To counter recent trends that concentrate production in the operations of the large producers, the members, promoters, and regulators of cooperatives will need to take deliberate steps to refocus the thrust of the cooperative movement toward helping small and disadvantaged farmers.

The recent growth in “new generation” cooperatives has typically focused on matching supplies to effective demand in niche markets through use of delivery rights and upfront investment in the joint value-added activity. A critical need of smaller cooperatives is to overcome weaknesses of fragmented marketing through coordination using marketing agencies-in-common or federations.

New start-up co-ops need professional assistance when they are least able to pay for it. Access to sound financial, legal, and marketing support is key. Seed money for feasibility analysis is needed for small producers to have the ability to assess the marketplace, and to identify an area that offers the greatest potential for the least risk. They also need the capacity to conduct the research and development to bring a new product to market. For a small start-up project, one stumble is fatal. And, the regulatory system and land-grant research structure must be attuned to the needs of these new ventures.

The Commission recommends that USDA's Cooperative Services programs should give priority for cooperative development to benefit small farm operators, including women, minority, and beginning farmers. Public sources of technical assistance, research, education/information about cooperatively owned businesses need to be strengthened and targeted to reflect the needs of small, women, minority, and beginning farmers. Research should be conducted to identify the best strategies and most successful cooperative models for small farmers. Efforts should be taken to expose and train USDA's Cooperative Services program staff to understand the unique strengths and liabilities of small farms in order to better serve their needs. Publications should be specifically tailored to provide information about cooperative opportunities for small farmers.

Teaching, research, and extension at 1862 and 1890 land-grant universities, as well as secondary schools with vocational agriculture programs, should consider including curriculum and courses on cooperative marketing where it does not currently exist. Educational programs through public television or using distance-learning technology should be developed for farmer audiences.

USDA's Cooperative Services program staff should actively promote the availability of USDA funding sources, such as the Federal-State Marketing Improvement Program (FSMIP), RBEG, B&I, and grants through rural electric cooperatives, to finance co-op feasibility studies and provide assistance in the application process.

Land-grant universities with food technology and processing research and development programs should make greater efforts to avail themselves of small, minority, women, and beginning farmers interested in developing value-added products appropriate to their size and scale.

(3)

Article Title: Comparing Apples to Apples: An Iowa perspective on apples and local food systems

Authors: Rich Pirog and John Tyndall

Article Date: undated

Source: Leopold Center for Sustainable Agriculture

<http://www.leopold.iastate.edu/pubs/staff/apples/applepaper.pdf>

Category: Marketing Options / Food Systems

The Local Food Task Force conducted a study to expand local markets for Iowa farmers and made recommendations that may be applicable to other areas:

1. Appoint a full time statewide local food systems coordinator who works with the Local Food Task Force to implement the following recommendations.
2. Formalize the Local Food Task Force and expand it into an ongoing working group.
3. Research and collect information on how local foods are produced, processed, distributed, and consumed, and the impact on Iowa's communities.
 - Identify, collect, develop and update a list of buyers, processors, distributors, and producers.
 - Compile baseline data on production, processing capacity, and consumption.
 - Identify existing local food projects and assess the actual and potential impact.
 - Conduct listening sessions throughout the state to ensure grassroots input.

4. Build public awareness and understanding of local food systems and its implications on the State's economy, communities, and environment.
 - Coordinate with existing statewide programs to celebrate local foods.
 - Develop additional local food education programs such as speaker's bureau and promotions at the state fair.
 - Begin statewide campaigns to encourage consumers to spend \$10 per week on local foods.
5. Provide "hands on" training and technical assistance that strengthens local food production.
 - Identify resources in the state and create forums that promote the sharing of information about local food production.
 - Partner with other groups in developing and delivering short courses on food production, business skills, and marketing.
 - Develop programs (internships, mentoring, and etc.) for producers.
6. Allocate resources to improve the infrastructure for local food systems.
 - Target a percentage of state and Federal agricultural assistance programs for local food producers and distributors.
 - Develop licensed kitchens and facilities where producers add value to their products.
7. Create incentives and opportunities for linkages among Iowa producers, processors, distributors, and consumers.
 - Link government and private programs that support producers growing food for local markets.
 - Provide programs (mentoring, internships, etc.) to assist institutions and businesses to increase their purchase of local food.
 - Require state institutions to develop plans to increase their purchase of local food.
8. Establish State Food Policy Council that includes representation from the Local Food Task Force.

(4)

Article Title: Niche vs. Mainstream Markets: the Role of Industrialization in the Agricultural Production Sector

Authors: Stewart Smith

Article Date: 2000

Source: Northeast Sustainable Agriculture Working Group

http://www.smallfarm.org/nesawg/pdf/nesawg_smith.pdf

Category: Marketing Options

The paper recommends a greater role for public research on integrated systems. Sustainable agriculture systems require more integrated cropping and crop/livestock systems. Integrating forage, for example, into a potato and grain rotation can increase the share of farming activity by up to 20% simply because more of the inputs into the system are provided by farmers (Smith, et al.) Integrated, sustainable systems require diversification, which provides a great incentive for farmer to provide more marketing services by segmenting her output and selling up the marketing chain. Niche markets become preferable to mainstream markets.

The paper notes that providing marketing services is an important component of integrated, more sustainable systems but the number of farmers who can transition to more integrated systems will depend largely upon the integrating technologies available at the farm level and the potentiality of the market for more segmented farm products.

The debate over using public research funds directed to sustainable agriculture to promote the development of precision agriculture is an example of the policy debates between integrated and industrial technologies. If public sustainable agriculture research funds are captured by precision agriculture proponents, the movement to more diversified integrated systems will be adversely impacted.

The role of public research takes on heightened responsibility since the private agricultural research system is unlikely to provide the kind of research needed to make integrated systems more competitive. Currently over one half of U.S. agricultural research is provided by the private sector, primarily input and marketing firms. They are dedicated to an industrial system of increased specialization at the farm level, greater dependency on the non-farm sector and greater industrialization of the food manufacturing and distribution system. It is up to the public research system to provide technologies that promote more integrated, sustainable farming systems.

Transitioning to more integrated systems also requires consumers who prefer local farm products. Local and regional food systems where farmers can contribute marketing services must also be components of the needed marketing change.

(5)

Article Title: On Reaching a Sustainable Food Production System in the Northeast U.S. – A Farmer's View

Authors: Shane LaBrake

Article Date: 2000

Source: Northeast Sustainable Agriculture Working Group

http://www.smallfarm.org/nesawg/pdf/nesawg_labrake.pdf

Category: Marketing Options / Food Systems

The paper asks, given current realities facing producers in the Northeast region - that the current California-Mexico paradigm is heavily dependent upon fossil fuels, an increasingly limited water and land base, a dependency upon a somewhat unstable migrant work force, and what seems like an incredibly short-sighted, profit driven management mentality - what would they do in the Northeast for fresh food should any of these variables erupt into a crisis?

Some of the recommended actions are:

1. The development of a larger skilled and willing farmer/grower/producer base that is skilled in sustainable production techniques.
2. The preservation, and perhaps reallocation of lands to allow this emerging farmer base access to production ground.
3. A source of capital to help capitalize this new crop of farmers.
4. An educated and supportive consumer base willing to sustain this new farmer, i.e., markets.

5. A support system that insures that those willing to farm have the emotional resources they need to keep farming.
6. A resuscitation of local farm service enterprises. This is only a partial list, one that must evolve and be further refined as we better understand the vast challenge within the premise.

(6)

Article Title: Northeast Farms to Food: Understanding Our Region's Food System

Authors: Northeast Sustainable Agriculture Working Group

Article Date: 2002

Source: <http://www.smallfarm.org/nesawg/pdf/farmstofood.pdf>

Category: Marketing Options / Food Systems

Advocates of food system sustainability in the Northeast recommend the following actions to build and strengthen local and regional food systems, divided into four categories:

1. Farm Economic Viability and Food System Economic Development
2. Natural Resource Conservation and Enhancement
3. Community Food Security
4. Food "Citizenship"

Farm Economic Viability and Food System Economic Development. The NSAWG calls for expanding direct marketing opportunities, developing and strengthening intra-region markets, technical assistance and education, adequate service infrastructure, linking agriculture and economic development, and helping the next generation of farmers.

Natural Resource Conservation and Enhancement. Maintaining and enhancing the Northeast productive resource base will require linking farmland protection, "multifunctionality," and growth management, investing in regulations, incentives, and research that promote stewardship, fostering secure and affordable tenure on NE farmland, and encouraging marketplace recognition for good stewardship.

Community Food Security. To achieve greater community food security, Northeast farmers need to embrace a systems approach that includes nutrition, diet, and food safety, link urban and rural communities to enhance food self-reliance, improve food access for all citizens and promote urban agriculture and community gardening.

Food "Citizenship". To achieve "food citizenship," we need to build consumer awareness and understanding of farming and the food system, promote relationships that foster local and regional food, purchasing encourage behavior beyond food buying that supports local agriculture, promote "agricultural literacy" in schools and other setting, and recruit more people and new groups to work toward our vision.

(7)

Article Title: Directions for Future Farm Policy: the Role of Government in Support of Production
Agriculture: Report to the President and Congress

Authors: The Commission on 21st Century Production Agriculture

Article Date: January 2001

Source: <http://www.usda.gov/oce/21st-century/report.pdf>

Category: Limited-Resource Farms

The Commission believes that it is the role of government to develop and fund programs that meet the special needs of small and limited-resource farmers. Accordingly, the Commission recommends that several specific areas warrant consideration by the Small Farms Advisory Committee as well as by legislators and policymakers. The Commission recommends formalizing by congressional authority the work of the Small Farms Advisory Committee as part of the U.S. Department of Agriculture, providing appropriate staff and appropriations. Areas for policy consideration include:

- Assist beginning farmers through a matching grant program that could allow beginning farmers to build equity rather than debt. The matching funds may provide less incentive for beginning farmers to choose a debt-laden, capital-intensive approach to financing their farming operation.
- Develop a voluntary directory of farms and ranches with cooperation from local agricultural agencies could help identify minority small and/or limited-resource farms in need of specific assistance.
- Make conservation programs part of a safety net for small farmers. To facilitate the needs of under-served farmers, a portion of funding could be allocated within each conservation program for special outreach assistance to limited-resource farmers and ranchers. Timely reimbursement of producers and ranchers who participate in conservation cost-share programs will especially aid small and limited-resources farmers who depend on a consistent cash flow to function. Small farmers and ranchers may be disproportionately affected by environmental regulations because they may not have the financial resources to install structures or buy equipment to meet government regulations. To compensate, small producers could receive a higher percentage cost share under federal cost-share programs. An alternative option would be to target small farms for participation in programs that maintain green space, view sheds, Conservation Reserve, Wetland Reserve, and other programs.
- Initiate future crop insurance pilot programs (insuring fruits, vegetables, etc.) targeting small and limited-resource farms that could measure the feasibility of insuring nontraditional crops. Crop insurance pilot programs are for growers in selected regions and not necessarily targeted to small and limited-resource farmers. These crop insurance pilot programs may help to establish proven yields of fruits and vegetables. Risk-management educational efforts directed to small and limited-resource farms could address sustainable agricultural practices as a means of managing risk. Risk-management education programs could enhance participation of small and limited-resource farms in risk-management programs.
- Funding programs such as the Outreach and Technical Assistance Program for Socially Disadvantaged and Minority Farmers (Sec. 2501) program, the Farm Ownership Direct Loan program, and the Farm Operating Direct Loan program, at their maximum authorized levels may aid the competitiveness of the nation's small

and limited-resource farms. The appropriations for the Sustainable Agriculture Research and Education program as well as the Rural Technology and Cooperative Development Center Grant program could be increased to serve additional under-served farms. Financial assistance could be provided to help develop small-producer cooperatives that could allow smaller producers to pool capital and expertise to add value to their production and ultimately improve their income.

(8)

Article Title: Federal Register: June 1, 2004 (Volume 69, Number 105) [Rules and Regulations] [Page 30815-30818] - excerpts
Authors: From the Federal Register Online via GPO Access [wais.access.gpo.gov] [DOCID:fr01jn04-1]
Category: Direct Marketing / Risk Management

In recent years, farmers who are selling peaches at roadside stands and farmers markets have been hit with freeze, hail and plum pox infestation, causing the loss of product. When they filed for USDA compensation (either from APHIS or RMA), they were provided only the lowest wholesale per lb/per bushel compensation by USDA. No recognition was given to the fact these roadside direct sellers or farmers market participants had a much higher "direct sale" value.

August Schumacher and Ken Ackerman, then Administrator of the Risk Management Agency, worked with the Michigan and Pennsylvania direct marketing peach growers to get new policies passed to establish a precedent with APHIS (Plum Pox infestation) and with RMA (on crop insurance). These filings were successful, with passage by Congress (Rep. Upton) on Michigan peaches on crop insurance and with a special *Federal Register* notice on plum pox, both recognizing that farmers selling through directly to consumers should have differential price treatment for crops lost due to natural disasters.

These are important precedents, as most direct marketing farmers who suffer natural disasters get lumped into the bottom of the price point decision by insurance adjusters or by APHIS inspectors. Below are excerpts from the formal Federal Register notice:

**DEPARTMENT OF AGRICULTURE
Animal and Plant Health Inspection Service**

7 CFR Part 301 [Docket No. 00-035-3] RIN 0579-AB19

Plum Pox Compensation

AGENCY: Animal and Plant Health Inspection Service, USDA.

ACTION: Final rule.

SUMMARY: We are amending the plum pox compensation regulations to provide additional compensation to affected growers, under certain conditions. We are providing additional compensation to growers who have already been paid compensation for 3 years of lost production, but who are prohibited from replanting regulated articles for a total of more than 3 years due to additional detections of plum pox in areas already under quarantine. Such growers will be paid compensation for up to 2 additional years. We are also providing additional compensation to growers who are direct marketers of

their fruit and growers who have had trees that were less than 1 year old destroyed. We are taking these actions in response to issues that have surfaced during our 2 years of experience in managing the plum pox quarantine and paying compensation to affected growers. These changes are necessary to provide adequate compensation to persons affected by the plum pox quarantine and eradication efforts associated with the quarantine.

DATES: Effective Date: July 1, 2004.

...Accordingly, 7 CFR part 301 is amended as follows:

PART 301--DOMESTIC QUARANTINE NOTICES

1. The authority citation for part 301 continues to read as follows:

Authority: 7 U.S.C. 7701-7772; 7 CFR 2.22, 2.80, and 371.3.

Section 301.75-15 also issued under Sec. 204, Title II, Pub. L. 106-113, 113 Stat. 1501A-293; sections 301.75-15 and 301.75-16 also issued under Sec. 203, Title II, Pub. L. 106-224, 114 Stat. 400 (7 U.S.C. 1421 note).

2. In Sec. 301.74-5, paragraphs (a)(1), (b)(1), (c)(1), (c)(2) and (d) are revised, a new paragraph (c)(3) is added, and the OMB control number citation at the end of the section is revised, to read as follows:

Sec. 301.74-5 Compensation.

(a) * * *

(1) Owners of commercial stone fruit orchards. Owners of commercial stone fruit orchards are eligible to receive compensation for losses associated with the destruction of trees in order to control plum pox pursuant to an emergency action notification issued by the Animal and Plant Health Inspection Service (APHIS).

(i) Direct marketers. Orchard owners eligible for compensation under this paragraph who market all fruit they produce under the conditions described in this paragraph may receive compensation at the rates specified in paragraph (b)(1)(i) of this section. In order to be eligible to receive compensation at the rates specified in paragraph (b)(1)(i) of this section, orchard owners must have marketed fruit produced in orchards subsequently destroyed because of plum pox under the following conditions:

(A) The fruit must have been sold exclusively at farmers markets or similar outlets that require orchard owners to sell only fruit that they produce;

(B) The fruit must not have been marketed wholesale or at reduced prices in bulk to supermarkets or other retail outlets;

(C) The fruit must have been marketed directly to consumers; and

(D) Orchard owners must have records documenting that they have met the requirements of this section, and

[[Page 30817]]

must submit those records to APHIS as part of their application submitted in accordance with paragraph (c) of this section.

(ii) All other orchard owners. Orchard owners eligible for compensation under this paragraph who do not meet the requirements of paragraph (a)(1)(i) of this section are

eligible for compensation only in accordance with paragraph (b)(1)(ii) of this section.

* * * * *

(b) * * *

(1) Owners of commercial stone fruit orchards--(i) Direct marketers. Owners of commercial stone fruit orchards who APHIS has determined meet the eligibility requirements of paragraph (a)(1)(i) of this section will be compensated according to the following table on a per-acre basis at a rate based on the age of the trees destroyed. If the trees were not destroyed by the date specified on the emergency action notification, the compensation payment will be reduced by 10 percent and by any tree removal costs incurred by the State or the U.S. Department of Agriculture (USDA). The maximum USDA compensation rate is 85 percent of the loss in value, adjusted for any State-provided compensation to ensure total compensation from all sources does not exceed 100 percent of the loss in value.

(9)

Article Title: Direct Marketing Today: Challenges and Opportunities
Authors: USDA AMS and Nelson Bills, Monika Roth, and Jane Maestro - Scherer
Date: February 2000
Source: U.S.D.A. Agricultural Marketing Service
<http://www.ams.usda.gov/directmarketing/DirectMar2.pdf>
Category: Direct Marketing

The U.S. Department of Agriculture (USDA)- Agricultural Marketing Service's (AMS) Farmer Direct Marketing Action Plan (August 1998) identified the need for public input on farmer direct marketing issues and opportunities. The findings would contribute to the development of an effective programmatic strategy for USDA-AMS that reflects the needs of the direct marketing community, promotes direct marketing alternatives, and improves market access for small farmers. A farmers market forum was followed by focus group meetings with marketers and individuals who work with small farmers or support direct marketing (facilitators).

- Pressing issues are producer perceptions of cost and returns, financial capacity of direct marketing businesses, availability of technical assistance and grants, and the overall regulatory environment faced by direct marketing firms. Of lesser concern were the status of producer marketing skills, availability of insurance, and the status of information and networking in the direct marketing community. Finally, relatively few focus group participants judged consumer interest to be a large problem for direct marketers.
- Market facilitators and marketers do not always hold similar opinions. A greater proportion of facilitators consider direct marketing success to be problematic, while marketers have a more buoyant attitude. Marketers downgraded capacity issues related to producer marketing skills, while more than 60 percent of facilitators indicated that lack of these skills is a major impediment to direct marketing. Both groups are wary of costs and returns associated with direct marketing but do not consider consumer interest a big problem in the direct marketing of farm products. Facilitators assigned greater significance to problems stemming from lack of technical assistance or grants and the regulatory environment faced by the direct marketing community.

The needs the focus groups identified provide many opportunities for USDA-AMS to respond.

1. Clearinghouse—One role for USDA-AMS is to coordinate the gathering and dissemination of information and data.
2. Grants—The participants expressed the opinion that USDA should encourage and fund innovative direct marketing initiatives through the Federal-State Marketing Improvement Program or other departmental resources. Participants pointed to reauthorization of funds under the 1976 Direct Marketing Act as one way to increase funds for direct marketing.
3. Broader Government Agency Support—Beyond funding, USDA-AMS could leverage support from sister USDA agencies and other government departments. They also expressed the belief that USDA-AMS could influence State and local government programs to support direct marketing.
4. Regulatory Relevance—Direct marketers need cross-department or -agency efforts to ensure that regulations are relevant. To ensure that regulations are relevant, departments should provide “best direct marketing management guidelines” that the regulators could adopt and marketers could follow.
5. Regulatory Compliance—USDA-AMS could provide information to help direct marketers remain abreast of changing regulations.
6. Key Contacts and Information Dissemination—In each State, marketers should identify key direct marketing contacts in State departments of agriculture, extension, and groups outside government engaged in promoting direct marketing.
7. Association Development and Support—Another means to disseminate information, State-level farmer direct marketing associations or networks exist in some States but should be encouraged in all States. The North American Farmers’ Direct Marketing Association eventually might play this role.
8. Research and Data Collection— Marketers could collect comparable results that they could use to build a national database of information on direct marketing while recognizing regional differences and opportunities.
9. Consumer and Market Research— Most producers do not have the capacity to do research, which could be a valuable role for USDAAMS. Many Federal-State Marketing Improvement Program grants already support projects that assess the feasibility of niche marketing opportunities.
10. Strengthening Producer and Consumer Linkages - This approach might link rural farmers and urban consumers through CSA-type arrangements and others
11. Access to Quality Wholesale Produce—USDA-AMS could facilitate networks between local growers and farm marketers. Marketers also expressed concern about the quality of produce available through wholesale terminal markets. USDA-AMS has a historical role of working with wholesale terminal markets and could investigate issues related to product quality at terminal markets. As an alternative, auction markets in Pennsylvania are an increasingly common source of produce purchases by farm marketers. USDA could investigate methods of linking farm marketers with local growers.
12. Expanding Market Channels—Several farm marketers and facilitators indicated an interest in selling to schools or government institutions, but the internal agency purchasing practices and government regulations present barriers. USDA-AMS could investigate the nature of these barriers and identify ways to overcome them so those local growers could sell directly to institutions. Manuals on how to sell to schools or the government interested focus group participants.

13. Other actions that USSDA-AMS could take revolve around promotion, publishing how-to information, and development of performance standard to measure direct marketing progress

(10)

Title: Making Changes: Turning Local Vision into National Solution

Authors: Henry Wallace Center Agriculture Policy Project

Date: May 2001

Category: Alternative Marketing Channels

Recommendations: [please refer to the Report for details]

1. Broaden the Rural Empowerment Zone/Enterprise Community model to include agriculture-based cooperatives
2. USDA should develop a national direct marketing publication targeted to a broad audience
3. Increase small farmer participation in Rural Electric Cooperative Association development programs
4. Develop and implement curricula and courses on cooperative marketing
5. USDA should launch a Small Farm Entrepreneurial Development Initiative
6. The Rural Enterprise Grants Program should establish a set-aside to support new market development
7. USDA-CREES should work with the Forest Service to promote value-added agroforestry
8. Amend the Farmer-to-Consumer Direct Marketing Act of 1976
9. USDA should fund and provide technical assistance to urban and suburban agricultural fairs
10. USDA-AMS and States Dept of Agriculture should provide information on definitions of farmers' markets
11. USDA-AMS and States Dept of Agriculture should develop programs for managers of farmers' markets
12. Land-grant universities should support local marketing efforts
13. Strengthen the Farmers' Market Nutrition Program and the Seniors Farmers' Market Nutrition Pilot Program

(11)

Article Title: Country of Origin Labeling: A Legal and Economic Analysis

Author: VanSickle, John, McEowen, R., Taylor, C. R., and Harl, Neil E.

Date: May 3, 2003

Source: International Agricultural Trade and Policy Center

Category: Country-of-Origin Labeling

There have been competing claims regarding the Country-of-Origin Labeling (COOL) program. The authors of this article state that attempts to quantitatively and qualitatively analyze the benefits of labeling have been recently (as of the date of this article) been absent in the public debate. As a result, the authors seek to provide a legal and economic analysis of the Labeling Legislation. Their significant findings are as follows:

The least cost alternative regulatory scheme that complies with existing law is to presume that all covered commodities are of U.S. origin while tracking existing marks of

origin on imported products. Other options are either too expensive or likely to violate the Labeling Legislation itself.

Tracking imported product labels as to the country of origin while presuming other product to be that of U.S. origin complies with WTO rules and other trade laws;

Producers of covered commodities are not subject to USDA jurisdiction under the Labeling Legislation unless they are vertically integrated so as to perform the functions of preparer, storer, handler, distributor or retailer of a covered commodity.

The benefits of labeling include consumer information, consumer choice, preservation of confidence in the food system, increased ability for consumers to identify food items subject to a recall, lessened costs incurred in contamination incidents, and consumer willingness-to-pay for labeling.

The benefits of labeling substantially outweigh the cost;

Consumer willingness-to-pay for labeling as to country of origin appears to be very significant. Existing studies suggest that the aggregate willingness-to-pay for labeling of beef alone is in excess of \$3.5 billion.

Past estimates of cost by USDA and others are substantially overblown due to errors in both legal and economic assumptions;

There is no reason to believe that consumer demand for covered commodities will be negatively affected by increased costs attributable to record keeping for labeling; and

The cost of record keeping relating to the labeling legislation is between \$69.86 million and \$193.43 million, which is 90 to 95% less than the USDA cost.

According to the authors, the enforcement of the law is very relaxed and is only enforceable against retailer if they “willfully” violate the law. In addition, a fine cannot be issued unless the Secretary has provided the retailer with a notice of the violation and a 30-day opportunity to correct the problem. For those covered entities that are not retailers, the enforcement standards require the Secretary to consider a number of different factors, such as the severity of the offense, the size of the business involved, and the effect the penalty will have upon the company or organization’s ability to continue business.

While specific implementation guidelines have not been set, the USDA indicates that optimum guidelines would comply with the labeling legislation and trade laws, lessen the burden on private entities, and lessen the burden on USDA, and reduce the risk of misrepresentation. A third party verification rule would be undesirable because it would create a whole new industry and therefore could be more costly and inefficient. A viable alternative option may be the presumption of U.S. origin rule. With this option, all products are presumed to be of U.S. origin, unless they are marked otherwise. This would be a preferred option, according to the authors. The only modification to the existing regulation would be to current regulations to identify the few imported livestock for which the origin is not presently marked.

The authors contend that the costs associated with the proposed labeling legislation are blown out of proportion. Specifically, they state that their estimate of \$69.86 million to \$193.43 million is very minimal in comparison to the enormous size of the food and agricultural economy. The Presumption of U.S. Origin Rule is the favored regulatory choice by the authors compared to what they call significant drawbacks from other alternatives.

(12)

Article Title: Produce Labeling Market-Chilling Prospect

Author: Martin Ross

Date: December 22, 2003

Source : FarmWeek

Category: Country-of-Origin Labeling

At the time this article was written, the potential cost of mandatory country of origin labeling (COOL) was identified as a major concern for fruit and vegetable growers by the United Fresh Fruit and Vegetable Association (UFFVA). The UFFVA board sought to delay or repeal mandatory labeling in favor of a “more market-based system”. At issue for the UFFVA was the proposed labeling of individual fruit or vegetables supplied to wholesalers or retailers or sold at some farm markets. USDA COOL provisions state that farmers could be fined \$10,000 in fines for labeling violations. Additional hardships could also be realized by farmers as they would be forced to identify and label each piece of fruit, as opposed to the box as a whole. This amounts to an extra cost to the producer because the retailer will not take the produce if it is not labeled. Smaller producers, in particular would have a hard time picking up that expense, according to Keira Franz, UFFVA legislative affairs director. Franz also states that as the first handlers in the produce chain, producers could face severe fines under the proposed USDA rules as of the date of this article.

(13)

Article Title: 165 Organizations Sign Letter to President Bush

Author: TheNewFarm

Date: December 3, 2003

Source: TheNewFarm

Category: Country-of-Origin Labeling

This article provides a letter written to President Bush detailing the belief of 165 agriculture and consumer groups who state that there should be no delay in the mandatory country-of-origin labeling law. The article shows that contrary to Secretary Veneman’s recent claim that farm groups want Congress to stall the labeling law, many groups, in fact, would like the law to move forward.

The letter states that while the U.S. Agriculture Department has been quick to criticize the law, they have not provided any constructive advice on how to make the law workable and fair to everyone affected. The letter contends that country-of-origin labeling is a marketing tool American producers need to promote the superiority of their products and differentiate them from commodities produced in other countries. According to these organizations, implementation is the problem, not the law. Overall,

the groups state that over 50 million Americans support the country-of-origin law. The groups urge congressional leaders to rectify what they perceive as a gross misinterpretation of their beliefs about the law. A specific list of the organizations is provided at the end of the letter.

Other references on marketing

- Land Stewardship Project, "Prosperous Farms and Healthy Land: Reforming U.S. Farm Policy," March 7, 2005 - Curb excessive corporate concentration and restore competition in agriculture through Packers and Stockyards and anti-trust enforcement and enacting legislation such as a ban on packer ownership of livestock and the Captive Supplies Reform Act. Clarification of "Undue Preferences" in the Packers & Stockyards Act: Packers commonly make unjustified, preferential deals that provide unfair economic advantages to large-scale agriculture production over smaller family owned and sustainable farms. Courts have found current undue preference legal standards virtually impossible to enforce. Additional legislative language is needed to strengthen the law and clarify that preferential pricing structures (those that provide different prices to different producers) are justified only for real differences in product value or actual and quantifiable differences in acquisition and transaction costs. Our country's farmers, ranchers, and consumers—both rural and urban—are asking for nothing more than a fair market and a fair share for family farmers of the \$900 billion dollars that consumers insert into the food and agriculture economy annually. *Absence of government action and regulation does not result in free and open markets when a handful of transnational corporations wield effective control over market access and pricing.* Laws to promote fairness and healthy competition, such as those outlined above, are key to achieving the goal of promoting an economically healthy and diverse agricultural production sector and providing consumers with healthy, affordable food.
- [Bill Kuckuck/email/6-3-05] Recommendations: (1) U.S government sponsored business risk insurance for emerging markets would be a big benefit to increasing global demand of U.S. products. New international market development for US farm products carries with it tremendous risk. Most emerging markets have highly unstable currencies due to their great political risk. U.S. commercial businesses are reluctant to develop these markets because commercial business interruption insurance and currency hedging mechanisms do not exist. The E.U. provides help in this area for their exporters. U.S. businesses would like similar treatment and would actively support this initiative. (2) Investment tax credits for U.S. companies investing in fixed assets for development of emerging markets. This was a very popular program in the 70's regarding energy conservation. The same would be true to support U.S. investment in emerging markets to stimulate demand for U.S. exports. (3) U.S income tax concessions for U.S. corporate executives living overseas to develop new markets for U.S. exports. Currently, U.S. executives are double taxed. This results in U.S. corporations subsidizing the personal impact for their executives. Unfortunately, the subsidy is included as income in the following year, thereby resulting in an even higher subsidy. The end result is that executives are forced to "move on" right at the time they are becoming most

effective in a targeted new market. The E.U. does not require an expatriate to pay home tax, if living in a foreign market.

- Billie Best, “New York State Food and Nutrition Policy” May 16, 2005 – Reducing regulatory barriers to interstate commerce would spur regional economic growth, particularly in rural communities. This could be accomplished by forming a pact with other northeast states to standardize food transportation and safety regulations, especially those that impact small producers crossing state lines for farm-direct sales, such as farmers’ markets. Environmental management programs offer a precedent for this type of regional collaboration in that they enjoin government and non-government organizations to inventory regional resources, establish regional thresholds, standardize regulations, and manage regional assets. The Northeast is geographically isolated and culturally distinct. A policy of regional collaboration would inspire the pride of place we know to be a powerful cultural influence over consumer food choices. A regional food policy would give food producers more confidence to invest in producing products for regional markets. Regional dairy policy would enable dairy farms to regain their independence from monopolistic processors and global pricing. Regional livestock policies would give livestock farmers incentives to grow their herds and diversify their product mix. Growing regional markets for cheese, wine, prepared foods and fiber products would make cottage industries more viable.
- Land Stewardship Project, “Prosperous Farms and Healthy Land: Reforming U.S. Farm Policy,” March 7, 2005 - Fully implement mandatory Country of Origin Labeling (COOL). Country of origin labeling (COOL) was passed as a provision of the 2002 Farm Bill. This popular and important measure allows consumers to determine where their food is produced while allowing producers to showcase their products for quality and safety. It also limits the ability of global food companies to source farm products from any country while passing them off as U.S. in origin. The meat packers and retailers have successfully stymied the effort to implement this law. Congress should immediately implement COOL to benefit producers and consumers as intended in the law.

XII RURAL DEVELOPMENT

The Issue

Spending more money on commodity subsidies doesn't do much to insure that rural communities remain in place and does little to support needed rural community infrastructure (water systems, schools, etc.). There is an element of farm structural issues here since many smaller farm households would help support rural communities better than support for fewer, larger farms, particularly those with wide spread holdings. At the same time, commodity subsidies are less available for more intensive kinds of agriculture practiced in developing areas where farmland protection is an issue.

The Proposed Solutions

Rural development advocates would like to see more of the commodity money directly targeted to rural development projects, rather than rely on weak second-hand impacts from supporting farms. In developing areas, expansion of Farm and Ranch Protection Program funding has been welcome, but direct support for types of farming in fringe areas would help bolster those efforts.

Who Supports It?

1. Unsupported producers
2. Foreign producers—developed countries
3. Foreign producers—less developed countries
4. Agribusiness-input suppliers
5. Farm area businesses
6. The poor and their advocates
7. Health advocates
8. Sustainable agriculture
9. Enviro
10. Small farmers (in developing areas)
11. Immigration reformers
12. Farm workers and their advocates

Who Opposes It?

1. Supported producers
2. Consumers-domestic
3. Agribusiness-exporters
4. Commodity groups
5. Farm lenders
6. Crop insurance industry

Research Group Suggestions

1. Block grants to target local areas needs
2. Block grants for market development
3. Food security and rural development designated a priority
4. Economic incentives for rural development
5. All programs should be tailored to regions, support local food security and allow greater flexibility at the local level
6. Tax credits for higher wages to farm workers
7. Low interest loans with higher caps for young farmers
8. Technical assistance for energy conservation
9. Tax credits for higher wages to farm workers
10. State block grants for market development and food security programs
11. Dedicated funds for technical assistance, value-added innovation and publicly funded research
12. Cost-share for new environmental sound technologies
13. Enhance food security with point of origin labeling; quality assurance programs; “strategic reserve” for all commodities (protecting land and its ability to produce).
14. Encourage new/beginning farmers through education, credit, training, mentoring programs, and financing for capitalization.
15. Regionally based program for perishable commodities including funds to establish and maintain infrastructure.

Outreach Group Suggestions

Summaries of Ideas on Rural Development

- A rural strategy for development
- Rural infrastructure
- Farmland protection
- Abandoned areas (alternatives to the Poppers)
- Land Stewardship Project, "Prosperous Farms and Healthy Land: Reforming U.S. Farm Policy," March 7, 2005. – Recommendations: Fully fund the Value-Added Producer Grant program and the Farmers Market Nutrition Program and expand these and other efforts aimed at alternative marketing, supplying local foods in federally funded nutrition programs, and sustainable rural development.
- Beginning Farmers and Ranchers Act, co-sponsored by U.S. Reps. Ruben Hinojosa, Lee Terry, and Earl Pomeroy – The act's main purpose is to motivate people to take up farming and ranching. The bill stipulates that an agricultural producer who sells his land would pay no capital gain taxes if the land is sold to a beginning rancher or farmer. If approved, the bill would provide: (1) H A 100 percent reduction in capital gain taxes would be given to those who sell their agriculture land to beginning farmers and ranchers. (2) H A 50 percent exemption would be given to those who sell their land to others who still are farming and ranching. (3) H A 25 percent exemption would be given to anyone selling agriculture land, regardless of to whom they sell it or for what purpose. "Qualified farm property" is defined as real property located in the United States if; (A) during periods aggregating 3 years or more of the 5-year period ending on the date of the sale or exchange of such real property, such real property was used as a farm for farming purposes by the taxpayer, the taxpayer's spouse, or other member of the family of the taxpayer, and (B) there was material participation by the taxpayer, the taxpayer's spouse, or other member of the family of the taxpayer in the operation of the farm during 3 years or more of the 5-year period ending on the earlier of-- (i) the sale or exchange of such real property, or (ii) the later of the retirement of the taxpayer or the taxpayer's spouse who materially participated. (1) FIRST-TIME FARMER- The term 'first-time farmer' means a first-time farmer (as defined in section 147(c)(2)(C), determined without regard to clause (i)(II) thereof) who meets the requirements of section 147(c)(2)(B). For purposes of the preceding sentence, in applying clause (ii) of section 147(c)(2)(B), the material and substantial participation standard shall be treated as met with respect to a qualified farm if the first-time farmer will-- (A) perform not less than 1,000 hours of service with respect to such farm, or (B) provide half the required management and labor with respect to such farm.

Land may not change use for 10 years. If a change of use does occur a recapture provision applies as follows:

Years 1-5, 100%

Year 6, 80%

Year 7, 60%

Year 8, 40%

Year 9, 20%

Year 10 and thereafter, 0%

There is also a penalty of 10% of the adjusted basis in the property on the date the property was transferred.

- Directions For Future Farm Policy: The Role Of Government In Support Of Production Agriculture, The Commission On 21st Century Production Agriculture, Report To The President And Congress, January 2001 - Commission recommends that the work of the Small Farms Advisory Committee become a part of the U.S. Department of Agriculture by congressional authority. <http://www.usda.gov/oce/21st-century/report.pdf>
- Katherine Smith, "Retooling Farm Policy" - Rural community development is best served by investment in housing, education, other social services, and job creation in industries for which the area is well suited. Agriculture does not have good job-creation potential because it is increasingly capital intensive. Farm household welfare is very well served by the creation of nonfarm job opportunities. <http://www.issues.org/issues/17.4/smith.htm>
- The vanishing middle group -- Richard Levins, "A New Vision for Agriculture and Rural Development on the Plains and Prairies of North America" - Unless the trend to contract farming takes a sharp detour, we may soon have farm policies without the independent farmers they were designed for. In Fred Kirschenmann, Steve Stevenson, Fred Buttel, Tom Lyson, Mike Duffy, "Why Worry About the Agriculture of the Middle?", and Hal Hamilton, "Sustainable Agriculture for Midsized Farms" (Ag of the Middle Group) - Mergers, acquisitions, and globalization have so changed the farming world that what has, and has not worked in the past must be reevaluated. And although small farms, particularly those around the metropolitan regions, are enjoying resurgence in recent years, the midrange of agriculture is stuck in conventional commodity production. Midrange farms are usually too big to market products directly and too small to compete in commodity markets. [http://www.foodandsocietyfellows.org/library/uploadedFiles/Sustainable Agriculture for Midsized Farms.htm](http://www.foodandsocietyfellows.org/library/uploadedFiles/Sustainable_Agriculture_for_Midsized_Farms.htm)
- Niche marketing
- Value-added agriculture (domestic version)--Dan McGuire, ACGA, "Renewable Energy in the Context of Rural Development and Farm Profitability", Daniel dela Torre Ugarte, Mary Walsh, Hosein Shapouri, Stephen Slinsky, "The Economic Impacts of Bioenergy Crop Production in US Agriculture" - The large-scale production of bioenergy crops could have significant impacts on the US agricultural sector in terms of quantities, prices and production location of traditional crops as well as farm income. To examine the potential impacts, the USDA and DOE partnered with UT and Oakridge National Lab and modified an agricultural sector model (POLYSIS) to include switchgrass, hybrid poplar and willow. The analysis also examined the potential use of CRP acreage as a source of bioenergy crops under two scenarios. In both cases, net farm income increases. <http://www.michiganbioenergy.org/areas/eco-impact.pdf>

- An American Corn Growers Foundation (ACGF) June 2004 survey reveals that corn farmers support (90%) wind energy incentives (tax credits and loans to farmers and ranchers to purchase renewable energy systems). Contains other interesting data on farm investment.
<http://www.cropchoice.com/leadstry.asp?recid=2611>
- NCGA Task Force (Bill Horan et. al) "Choices in the Evolution of Corn Belt Agriculture: A Look at the Economic Forces Changing Agriculture and Rural Communities" - Farm policy is seen as no substitute for rural development. Trends indicate that subsidies have stifled incentives for entrepreneurship among grain farmers by relieving financial pressures for them to adapt. As farm scale accelerates, the exodus of small growers can be slowed through community-based solutions, including advanced manufacturing and processing to offer ways to supplement their incomes. As growers transition from commodity agriculture, they will need to cultivate relationships with suppliers, grain merchants, buyers, and others up and down the food chain. "Niche" operations, "entertainment farming" and using the Internet as "the ultimate roadside stand" are some options. http://www.ncga.com/public_policy/PDF/Evolution-Final.pdf
- Mark Ritchie, "Working Together to Remake and Retake Rural America" Proposes to build a united movement for rural America by bringing together long-term competitors like the Farmers Union and the Farm Bureau and rural-based labor unions and business associations. Rural development advocates must abandon their attacks on farm programs and family farm advocates must support development of business that revitalizes rural areas in healthy ways.
<http://www.newfarm.org/depts/gleanings/0403/ruralamerica.shtml>
- USDA National Commission on Small Farms, "A Time to Act" - The Commissioned outlined policy strategies for small farms including launching a USDA Interagency Beginning Farmer Initiative dedicated to researching, developing and disseminating farm management models that emphasize low-capital investment, increasing appropriations for sustainable agriculture, rural and socially disadvantaged and minority farmers training and outreach efforts.
<http://www.ratical.org/corporations/linkscopy/report.html>
- Richard Levins, "Family Farm Legislation: Who are we protecting?" A first and basic step for farm policy must be a public discussion where we clearly define the type of farm to be given special protection. Questions of size, ownership, and management must be answered so we can say, "this farm is to be protected by federal policy" and "that farm is not to be protected by federal policy." A special follow-up study should determine how many of our nation's farms meet the definition
- "Educational Needs of Beginning Farmers as Perceived by Iowa Extension Professional Staff," by Nelson, Dan R.; Trede, Larry D. February 2004 Journal of Extension - A survey of local and state Extension professionals in Iowa and implications for Extension and beginning farmer education are discussed. Professional groups differed slightly in their ratings, but perceived educational providers to be useful overall. They rated the Internet as the most useful media and gave low ratings to radio and newspaper. This contrasts with earlier opinions of beginning farmers. The groups supported using input from farmers and

problem-solving methods, but disagreed when rating distance education for program delivery. The topics perceived to be most important were in the business area. <http://aaaeonline.ifas.ufl.edu/NAERC/2000/web/g1.pdf>

- Schumer, C. E. 2004. *Schumer: Give outdoor sportsmen more access to private lands in New York*. New York senator Charles Schumer proposes increasing access to private lands for hunters and other sportsmen. The article states that wildlife sports are vital to the regional economy. \$50 million in grants to landowners who allow wildlife sports on their land is proposed. Schumer believes that this extra boost will allow farmers to make ends meet. The proposed Open Fields Act would establish federal funds for states to offer incentive payments to farmers and ranchers who voluntarily agree to allow public access on their land under terms established by each state.
- Wallace, H.A. 2003. *Agriculture as a tool for rural development: workshop proceedings*. A comprehensive array of presentations relating to rural development and how it affects agriculture. Offers an interesting piece on entrepreneurship and agriculture. The gist of this section is that as subsidies from the federal government have eroded, it will become more important for farmers to think of new sources of economic activity. Community-led entrepreneurial development would be a way to help farmers develop this entrepreneurial spirit.
- EU Rural Development Plan. Passed June 21, 2005. European Union agriculture ministers have agreed to share out an annual euro12.7 billion (US\$15.51 billion) package to support rural development. The unanimous agreement reached late Monday in Luxembourg is separate from the wider debate over the EU's budget and farm subsidies that provoked angry disagreement among leaders of the 25 EU nations last week. The package to run from 2007-2013 focuses on developing the rural economy by encouraging the production of better quality food, promoting job creation in the countryside and protecting the rural environment. Money from the package will also assist training for young farmers; build up rural infrastructure; help farmers to meet animal welfare and food safety standards; develop tourism in the countryside and offer special help to farmers in remote areas. "This agreement modernizes our rural development policy and makes it a key tool in efforts to create growth and jobs," said EU Agriculture Commissioner Mariann Fischer-Boel.
- ERS Amber Waves Article.. Volume 3. Issue 2: 2005
Rural policy for the future will need to encompass a broader array of issues, and these different rural issues will require different mixes of solutions. Strategies to generate new employment and income opportunities, develop local human resources, and build and expand critical infrastructure hold the most promise for enhancing the economic opportunities and well-being of rural America.

New Economic Engines: Prosperity for many rural communities will depend on innovative income-generating strategies that attract people and jobs. Faced with continuing loss of farm jobs, some rural communities have sought to offset shrinking employment by adding value to farm products. Focusing on the role of farms as a source of raw materials for food and fiber products, these communities seek to add value to agricultural commodities by luring food processing plants to rural areas, developing new consumer or industrial uses for

agricultural products, or bypassing conventional wholesale-retail systems to sell food products directly to consumers. These strategies may prove successful for some communities, but ERS research finds that value-added strategies in general are not particularly promising as engines for rural job growth. Food retail and marketing are the largest and fastest growing value-added sectors, but these businesses usually choose to locate in urban areas for more efficient access to consumers, nonagricultural suppliers, and distribution networks. Food manufacturing and other value-added activities account for a relatively small share of rural employment, and the amount of job growth from these value-added strategies has had little impact on the general rural labor market. Many rural communities are looking at other innovative ways of attracting and retaining high-paying industries and employment to rural areas. The traditional way of attracting firms to a region by offering tax reductions may no longer be sufficient.

New approaches, such as providing training and technical assistance by local educational institutions to clusters of similar firms, may be more successful than tax-based incentives because they help firms to adapt innovative production techniques. Training and business assistance programs can help new entrepreneurs in some rural areas enhance their business acumen and improve business communication skills. Networks of small businesses can help build a more effective business infrastructure by coordinating marketing services, warehousing, business resources, and computer technology.

Capitalizing on new uses of the Nation's natural resource base may be essential to ensuring the economic wellbeing of rural America. This resource base can provide such uses as water filtration, carbon sequestration, and nontraditional energy sources, including methane utilization. Some rural areas may be well suited for the development of renewable energy as well as the production of more traditional fossil-fuel energy. Natural amenities, though, will be the trump card for some rural areas. Rural counties with varied topography, relatively large lakes or coastal areas, warm and sunny winters, and temperate summers have tended to reap huge benefits from tourism and recreation, one of the fastest growing rural industries. Recent ERS research finds that tourism and recreational development in rural areas leads to increases in local employment, income, and wage levels, and improvements in social conditions, such as poverty, education, and health. These strategies have drawbacks, however, particularly in the form of higher housing costs in these nonmetro recreation counties.

- "Policy Options for a Changing Rural America", April 2005, USDA, Economic Research Service – "Amber Waves". Volume 3, Issue 2

The rural landscape is not what it once was. In 1950, four out of every ten rural people lived on a farm and about a third of the Nation's rural workforce was engaged directly in production agriculture. Today, less than ten percent of rural people live on a farm and only 14 percent of the rural workforce is employed in farming. Additionally, some rural communities have changed due to increased population from urban areas, shifts in age, and economic and industrial restructuring. Competition from overseas has increasingly put pressure on rural communities to build onto their economic base and to attract more people and business in order to survive. Taking these changes into consideration, this paper seeks to identify some of the different policy issues and needs for contemporary rural America.

CHANGING DEMOGRAPHICS

Population growth in most rural communities had began to slow in the mid-decade and the number of non-metro counties that have lost population has climbed from 600 counties in the 1990s to over 1,000 counties since 2000. Therefore, maintaining the population base, improving off-farm job opportunities, and providing public services continue to be long-term policy challenges for many traditional farming communities.

Hispanics are now the fastest growing racial/ethnic group in rural America, accounting for over 25 percent of the nonmetro population growth during the 1990s. Some factors which should be taken into consideration regarding these Hispanic communities are the younger age group, lower education, and larger family size. These factors typically will indicate a need for more social services within the community.

Older populations have grown in rural communities, primarily in the Southwest and Florida. Alternately, older populations within some Southern areas, such as the lower Mississippi Delta, have been declining. This dual pattern of growth and decline suggests that need for different policy strategies.

The education attainment of rural Americans is at an all-time high. In the year 2000, nearly one in six rural adults had a 4-year college degree, which is about twice of those a generation ago.

THE RURAL AND NATIONAL ECONOMIES

Although the U.S. economic recovery began in November of 2001, economic recovery in rural America has been uneven. Most gains have been realized in the populated areas within the South and West. Rural areas in the Northwest continue to wrestle with declining employment in timber and other natural resource industries and the employment picture for the Great Plains and Midwest was mixed.

INDUSTRIAL RESTRUCTURING

Overall, the rural economy has shifted from a dependence on farm-based jobs to off-farm jobs. However, some rural communities still rely heavily on agriculture. The challenge seems to be less that some communities have a weak agriculture, but that some require more highly skilled labor to maintain their economy. The authors of this paper state that about 30 percent of all nonmetro communities were dependent upon manufacturing during 1998-2000.

RURAL POLICY OPTIONS FOR THE FUTURE

Commodity-based farm policies do not seem to be equipped to fully address the complexity of issues present for rural communities, therefore, it is thought that rural policy will need to encompass a broader array of issues in the future. New economic avenues will need to be created. For example, adding value to farm products by developing new consumer or industrial uses for those products may be an option. However, the USDA, Economic Research Service (ERS) research finds that this is not a particularly promising area. Instead of value added product development or the traditional tax reductions to encourage development, finding new uses for the Nation's natural resource base might be in order. Developing renewal energy, for example, could be useful.

While ERS research finds that the development of tourism and recreation in rural areas is fruitful, it also has drawbacks, such as higher housing costs. According to ERS research, there does seem to be a direct relationship between improved labor force quality and economic development outcomes. Therefore, investment in quality education and assistance for vocational training may be of value. Public infrastructure, such as telecommunication, has been partially financed through the government, but many rural communities still need improvement in this area.

A regional approach is recommended for future rural policy. Regional and multicomunity efforts such as the Delta Regional Authority and the Northern Great Plains authority have proved to offer help to rural communities facing high rates of poverty, population loss and low educational attainment.

While there is no one formula for policy success, policy analysts may want to use the successful rural communities as prototypes for future policy development.

XIII. NUTRITION AND FARM SUPPORT

The Issue

A number of critics say that America's cheap food policy, while not doing much to alleviate hunger, has created an obesity problem by subsidizing foods that lead to obesity, such as high-fructose corn sweeteners, and by generally making food so cheap that "supersizing" is a viable marketing ploy. This was highlighted in the media, by Michael Pollan, in an October 12, 2003, *New York Times Magazine* article entitled "The (Agri)Cultural Contradictions of Obesity," and at an ABC News-Time magazine "Summit on Obesity" June 2-4, 2004. Among other topics, the summit will feature a session called "Farm Subsidies: The Link Between Abundance and Obesity" that will attempt to connect the U.S. obesity epidemic to provisions of the farm bill. A clinic called "The Shaping and Making of Policy: 10 Things Washington Can Do Differently," in which panelists will discuss the effect of farm policy on obesity, is also on the agenda. Another popular obesity scapegoat – high fructose corn syrup (HFCS) – is also likely to be a hot topic in a four-part session entitled "What Should We Eat?". The World Health Organization blames farm subsidies across the world in part for increased obesity, especially subsidies for sugar.

In addition, there is no support for healthier foods, such as fruits and vegetables, and little support for direct marketing of fresh produce, farmer's markets, and organic production methods that some feel are healthier than the mainstream food system.

The Proposed Solutions

Solutions include shifting subsidies from bulk commodities to at least include fruit and vegetable production, and changing nutritional assistance programs to provide incentives for healthy choices and make them more accessible, including changing access to farmers markets, direct marketing, and community supported agriculture.

Who Supports It?

1. Unsupported producers
2. Foreign producers—developed countries
3. Foreign producers—less developed countries
4. The poor and their advocates
5. Health advocates
6. Sustainable agriculture
7. Taxpayers
8. Fiscal conservatives

9. Enviros
10. Small farmers
11. Immigration reformers
12. Farm workers and their advocates

Who Opposes It?

1. Sugar industry
2. Supported producers
3. Consumers-domestic
4. Consumers-foreign
5. Agribusiness-exporters
6. Agribusiness-input suppliers
7. Farm area businesses
8. Commodity groups
9. Farm lenders
10. Crop insurance industry

Research Group Suggestions

1. Require local school districts to give first priority to local product.
2. Regionally based program for perishable commodities including funding to establish and maintain infrastructure.

Outreach Group Suggestions

1. Offer incentives for municipalities to establish farmers' markets.

Summaries of Ideas on Nutrition and Farm Support

- Reauthorization of USDA Child Nutrition Programs, June 24, 2004 - Includes the National School Lunch and National School Breakfast Programs. Bill extends and expands the fruit and vegetable pilot projects, along with requirements that school districts establish wellness policies, will help address the growing overweight and obesity problem in children. This bill makes important strides in strengthening program management through provisions that increase the development and distribution of training and technical assistance materials. The bill also reauthorizes the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), and the Summer Food Service Programs - <http://www.usda.gov/Newsroom/0261.04.html>.
- Land Stewardship Project, "Prosperous Farms and Healthy Land: Reforming U.S. Farm Policy," March 7, 2005. – Recommendations: Fully fund the Farmers Market Nutrition Program and expand these and other efforts aimed at alternative marketing, supplying local foods in federally funded nutrition programs, and sustainable rural development.
- Washington Post Article, "U.S. Says It Will Contest WHO Plan to Fight Obesity," January 16, 2004, notes that the US delegation plans to seek revisions with the WHO's governing board. The goal will be to place much greater emphasis on the role of "personal responsibility" instead of government regulation.
- Subsidizing the wrong kinds of foods-- Douglas Besharov, AEI, "Growing Overweight and Obesity in America: The Potential Role of Federal Nutrition

Programs", WHO, Diet and physical activity: a public health priority - Besharov's congressional testimony says that evidence points to the direction that federal feeding programs are making the poor fat. He recommends giving the poor cash instead of food stamps. Experimental programs have demonstrated that "cashing out" food stamps is much more convenient and does not result in unhealthy diets nor the mismanagement of family finances.

<http://www.welfareacademy.org/pubs/testimony-040303.pdf>

- Subsidizing the right kinds of foods--Doug O'Brien, et. al, America's Second Harvest, "The Red Tape Divide: State-by-state Review of Food Stamp Applications" - The Red Tape report reviews food stamp applications across the country and recommends at the federal level, simplifying the program, enhancing case worker customer service, and aggressive outreach to vulnerable populations. http://www.secondharvest.org/more_files/food_stamp_study.pdf
- Broadening benefits to more kinds of food--Willard Cochrane, IATP, "A Food and Agricultural Policy for the 21st century" - Among the recommendations: Maintain the existing food assistance programs; Maintain a strong public research program; A special disaster program focusing on the problems of food producers should be established; A grain reserve program should be established of such size as to enable it to help moderate large swings in world grain prices; Protect the remaining family farms from disappearing; Create a special unit in the Department of Justice to investigate monopolistic actions in the food production and distribution system; An annual cash subsidy ranging from \$15,000 to \$25,000 (depending on size of operation) should be made to all family farms. New legislation is needed to establish a federal program to monitor and regulate factory type operations in the production and processing of poultry, beef, pork and dairy products. - <http://www.misa.umn.edu/forum/cochrane.html>.
- Welfare reform--Jean Opsomer, Helen Jensen, Suwen Pan, CARD-ISU, "An Evaluation of the USDA Food Security Measure with Generalized Mixed Models" - Common measurement of the phenomenon of hunger and food insecurity has become possible through efforts of the U.S. Department of Agriculture (USDA) to develop a set of survey questions that can be used to obtain estimates of the prevalence and severity of food insecurity. This paper takes a closer look at the measurement of food insecurity and the effect of household variables on measured food insecurity. The effects of demographic and survey-specific variables on the food insecurity/hunger scale are evaluated using a generalized linear model with mixed effects. Data come from the 1995, 1997, and 1999 Food Security Module of the Current Population Survey. The results generally validate the model currently used by the U.S. Department of Agriculture. <http://www.card.iastate.edu/publications/DBS/PDFFiles/02wp310.pdf>.
- Sony Kostova Huffman and Helen Jensen, CARD-ISU, "Do Food Assistance Programs Improve Household Food Security?" -This paper examines the interaction among food stamps, labor force participation, and food insecurity status of low-income households under different program designs and economic conditions. A simultaneous equation model with three probit equations links the programs, workforce participation, and outcomes. Results based on Survey of Program Dynamics data suggest that Food Stamp Program participation is more responsive to changes in program benefits than it is to changes in the

unemployment rate or non-labor income. Food insecurity status is more responsive to changes in food program benefits or the unemployment rate than it is to non-labor income.

<http://www.card.iastate.edu/publications/DBS/PDFFiles/03wp335.pdf>.

- Helen Jensen, CARD-ISU, "A Study of Households in Iowa that Left the Food Stamp Program" - Those who left the FSP in 1997 showed better economic and employment outcomes than did others. This was true for working age adults without dependents or a disability. Adults without dependents or a disability who remained in the FSP in 1997 showed evidence of the greatest hardships: they were most likely to have very low income, less contribution from earned income, and to have experienced food insecurity and hunger in the last year. <http://www.card.iastate.edu/publications/DBS/PDFFiles/02sr97.pdf>.

- A more direct linkage with agricultural producers-- Charles Benbrook, "What will it take to change the American food system? - Changing the American food system in a generation (say 50 years) will require systemic and systematic changes in every area of public policy impacting farming, agribusiness, and food manufacturing. Paper presents a 17-point plan. <http://www.biotech-info.net/kellogg.pdf>.

XIV. FARM STRUCTURE AND FARM SIZE

The Issue

This approach directs farm policy toward redressing and halting the long-standing movement toward larger farms and the perceived movement toward less family ownership and control of farms. Farm policy should therefore NOT be available to all producers, or should be available to smaller farms, beginning farmers, and limited-resource farmers preferentially.

The Proposed Solutions

Solutions include stricter limitations on payments, examination of farm and nonfarm income as means tests for payments, targeting payments to low-cost (or high-cost) producers, providing below-market loans and grants to beginning farmers and limited-resource farmers, and expanding payments to nontraditional commodities, such as livestock, fruits and vegetables, organic, and other kinds of agriculture. Because production-based payments are seen as creating incentives for large farms to grow even larger, the connection between production and payments should be replaced with policies that more scale-neutral.

Who Supports It?

1. Unsupported producers
2. Foreign producers—developed countries
3. Foreign producers—less developed countries
4. Agribusiness-exporters
5. Agribusiness-input suppliers
6. Farm area businesses
7. Sustainable agriculture
8. Enviro
9. Small farmers
10. Farm workers and their advocates

Who Opposes It?

1. Supported producers
2. Consumers-domestic
3. Consumers-foreign
4. Agribusiness-exporters
5. Commodity groups
6. Farm lenders
7. Crop insurance industry

Research Group Suggestions

Outreach Group Suggestions

1. Eliminate county committee system for administering USDA programs.
2. Establish a re-entry and restoration program for black farmers with credit beyond repair.
3. Authorize 2501 at appropriate level and provide mandatory funding through CCC (for 1890 institutions and CBOs observing black farmers).
4. Create Office of Black Farmer Affairs responsible for 50 percent of 2501 and accountability and direct loans to black farmers, oversight of all programs related to black farmers.
5. Make direct loans to black farmers.
6. Place foreclosed land (FSA) into inventory and target to other black farmers.

Summaries of Ideas on Farm Structure and Farm Size

- Means testing and Payment limitations—Report of the Commission on the Application of Payment Limitations for Agriculture Submitted in Response to Section 1605, Farm Security and Rural Investment Act of 2002 - A comprehensive report on the types of program payments, eligibility, criteria, concentration of payments and their effect on farmland values, rural communities, crop supply, demand, price and planted area. Report has a package of recommendations on the general administration of payment limits, eligibility criteria, and marketing loan benefits.
<http://www.usda.gov/oce/oce/payments/paymentLimitsAll.pdf>
- Production-based payments
- Eroding payment limitations--Christopher Kelley, National Agricultural Law Center, "Federal Farm Program Payment Limitation and Payment Eligibility Law" - Resolving whatever shortcomings may exist in the current payment limitation rules presents political and practical problems. The dollar limits' impact on individual producers varies from insignificant to very significant. Only producers who farm land with relatively large crop acreage bases were directly affected by the \$40,000 limit on production flexibility contract payments. Similarly, except when crop prices are very low, only producers who currently raise relatively large volumes of the crops eligible for marketing assistance loan gains and loan deficiency payments are directly affected by the \$75,000 combined limit for these gains and payments.³⁰ Moreover, with respect to production-based programs, such as marketing assistance loan program and the loan deficiency payment program, producers of crops whose prices are low in a particular year are more directly affected than producers of crops whose prices are high in that year. Therefore, larger farming operations whose production tends to be in oversupply usually have a greater stake in maintaining high limit amounts than do smaller farming operations.
http://www.nationalaglawcenter.org/assets/article_kelley_paymentlimitations.pdf
- Targeting income supports--ERS
- GAO. Farm Programs. Information on Recipients of Federal Payments, June 2001 - background information on major barrier that make it difficult for young

people to enter farming, namely high cost of acquiring the needed asset, principally farmland and farm machinery. Farm program payments are helpful to new farmers once they grow eligible crops. On the other hand, the payments can also pose a barrier to prospective farmers wishing to acquire farmland. Once a farmer becomes eligible for payments, the assistance can help in paying off debts, covering operating expenses, acquiring additional land, and providing a financial buffer during periods of low prices and/or production. However, because most payments are tied to production, a significant amount of the subsidies go to relatively few, large, established operators. Further, the value of the payments causes sellers to ask higher prices or prospective purchasers to bid up the price of the limited farmland on the market. <http://www.gao.gov/new.items/d04407.pdf>

- Farm income v. Farm household income-- Income, Wealth, and the Economic Well-Being of Farm Households, Ashok K. Mishra, Hisham S. El-Osta, Mitchell J. Morehart, James D. Johnson, and Jeffrey W. Hopkins, ERS Agricultural Economic Report No. AER812. 2002 (<http://www.ers.usda.gov/publications/aer812/aer812fm.pdf>) - Using an expanded definition of economic well-being, report shows that farm households as a whole are relatively better off than the average U.S. household, but that about 6 percent remain economically disadvantaged relative to the rest of the population.
- Different kinds of agriculture—AFT, Michael Boehje and Otto Doering, "Farm Policy in an Industrialized Agriculture"; Boehje and Doering talk about policy responses to the structural changes in the agriculture industry, including a host of regulatory policies to address market power and concentration in the industry. For example, mandating or encouraging equitable sharing of risk and rewards in vertical alliances as an alternative to fixed price contracts, and increasing producer bargaining rights. ERS America's Diverse Family Farms 2001 notes that there is unlikely to be a "one-size-fits-all" policy for family farms and that natural resource quality and conservation can play a major role in the portfolio of instruments addressing the family farm. See also ERS Farm Typology for a Diverse Agricultural Sector on concentration of production among very large farms.
- Unsupported agriculture (e.g., fruits and vegetables, organic, other nonparticipants)
- John Ikerd, U of Missouri, "New Farm Bill and US Trade Policy: Implications for Family Farms and Rural Communities" - Echoing Willard Cochrane, advocates a "Farm Tax Program" that would provide farmers with many of the employment security benefits available to other public workers – minimum wages, unemployment benefits, and workers compensation. The farmer would have the assurance of the "tax credit" to tide them over in years of crop failures, depressed prices, times of ill health or other economic set backs on their way to achieving sustainability. Over time, farmers would be required to show progress toward sustainability to remain eligible for the "tax credit." If, after some specified number of years, they fail to achieve economic sustainability, they could be helped to find employment elsewhere, freeing up their farm for a beginning farmer, who would then be eligible for the Farm Tax Program- <http://www.ssu.missouri.edu/faculty/jikerd/papers/FarmBill.html>

- Article Title: “Understanding the Farm Problem: Six Common Errors in Presenting Farm Statistics” - Timothy A. Wise, March, 2005, Tufts University

Due to misleading statistical quotes on the status of farm operations and producer incomes, mistaken farm policies are often created. While some of the information is true at face value, it does not adequately represent the entire picture, according to the author of this article. Therefore, the purpose of this paper is to point out some of the more common errors contained within farm sector reports and information.

Six common errors are identified by Wise: 1) Including “Rural Residence Farms”, which represent two-thirds of all U.S. farms but do not farm for a living, in the totals for the farm sector; 2) Using averages for the farm sector as a whole when presenting income data; 3) Including non-farm income in analyses of farm programs; 4) Ignoring the impact of land ownership; 5) Viewing the skewed distribution of farm payments in isolation from the structure of the farm sector itself; and 6) Presenting farm subsidies as going unfairly to the top 10% - 20% of farmers, who don’t need it.

Error #1

Including “Rural Residence Farms” leads to the misleading statement that a minority of farms get farm payments. In this case, a minority of part-time farmers gets payments, but a significant majority of full-time commercial and family farmers receives farm payments. The problem lies when all farms are counted together when nearly 1.4 million are not operating for commercial purposes.

Error #2 -

The accurate but misleading statement that average farm household income is 185 higher than that of the non-farm population is rooted in the error of using averages for the farm sector as a whole when presenting data. Including non-farm income in the analyses of farm programs gives an inflated picture of producer income because family farms typically get more than half of their income from non-farm sources. Ignoring the impact of land ownership is misleading because farm payments are presented as if they are going to the farmers themselves, when in fact, some skip the farmers and go directly to the owners.

Error #3

If the goal is to seek the need for and efficacy of farm programs then it is misleading to look beyond the farm. Farmers as a whole have seen only nominal prices for their products, however, expenses have been steadily increasing.

Error #4

Ignoring land ownership is problematic because farmers are not always the sole beneficiaries of payments. About 45% of U.S. farm-land is rented and the majority of agricultural landlords are not farming.

Error #5

In order to solve the inequity in farm policy, it may be necessary to address the reason why the concentration and production of land is in the hands of a relatively small number of large farmers.

Error #6

Farm subsidies data are particularly misleading for two reasons. First, the data are not perfect; errors can be found and are within these sources. Also, lumping together farm payments received by organizations as a whole produces unfair generalizations about individuals within those particular groups. Second, by showing top payments in percentiles and by using averages, farmers who are grouped within these categories may be erroneously viewed as receiving more than they actually receive. A farmer receiving \$10,000 could be grouped within the \$38,000 per year category, for example.

Conclusion:

The majority of farmers are having a difficult time making ends meet, however, the way statistics are presented may skew the real financial picture or take things out of context. As a result, farm policy may not adequately reflect the financial needs of producers. It is only when policy makers are in tune with potential misrepresentation information that they can begin to uncover the truth and formulate truly effective agricultural policy.

XV. RESEARCH AND EXTENSION

Maintain and enhance the competitiveness of America's agriculture.

The Issue

Extension has been significantly downsized and the trend in research has been towards competitively awarded grants rather than direct line funding to land grant universities to maintain research programs. In addition, USDA research, particularly from the Agricultural Research Service, has been focused on increasing crop yields and productivity.

Research Group Suggestions

1. Strengthen government's role in research and entrepreneurship
2. Investments in public research for public benefits
3. Dedicated funds for technical assistance, value-added innovation and publicly funded research
4. Increase funding for research and development
5. Reduce USDA bureaucracy
6. Increase research on biomass, energy production, marketing, alternative crops, etc.

Outreach Group Suggestions

1. Provide additional funding for land grant universities for classes on conservation, animal husbandry and holistic management.

Summaries of Ideas on Research and Extension

- [O. Doering/speech/4-20-05] Prospects for the coming farm bill – Make technical assistance the centerpiece for all the conservation programs. Motivate through technical assistance more and less through direct subsidies and payments. The prairie populist in me believes that readily available one-on-one technical assistance encourages people to do the right thing by themselves even beyond what might be available in government assistance.
- "The Impacts and Benefits of USDA Research and Grant Programs to Enhance Mid-size Farm Profitability and Rural Community Success: A Preliminary Report," Kim Leval, et al., Center for Rural Affairs, Washington, D.C. – The study examines federal ag research, marketing and business enterprise development programs: Rural Business Enterprise Grant (RBEG), National Research Initiative (NRI), and Initiative for future Agriculture and Food System (IFAFS). The study looks at nationwide trends and focuses on Iowa as a case study. RBEG received an average mark of 64% of a perfect score. NRI received an average score of 47% of a perfect score. This is a dismal result for such an important program. IFAFS projects earned a 76% of a perfect score. Most projects examined were beneficial to small- and mid-size farmers and ranchers and to beginners.

Recommendations for the 2007 Farm Bill:

1. Propose a targeted amount of funding be directed to RBEG, VAPG, NRI and IFADS programs (now a subset of NRI) that serve family farmers and rural communities using our selected criteria as a guideline.
2. Set aside a specific amount of each program for projects concerning beginning farmers and ranchers.
3. Direct more resources in NRI to programs that directly serve small, mid-size and beginning farmers and ranchers and that help build vitality in rural communities using the Initiative for Future Agriculture and Food Systems as a model. Ensure that the NRI request for proposals reflects the language of the priority mission area of IFADS -- farm profitability and the "competitiveness and viability of small and medium-size dairy, livestock, crop and other commodity operations" -- in the IFADS related areas for which it solicits proposals. Absent specific language encouraging such proposals and specific instructions to the review panels to weigh the subject heavily, those assessing other Mission areas will likely ignore this purpose. The result is that proposals running directly counter to this Mission will likely be adopted.
4. Include funding to train national and state-level Rural Development and CSREES staff in ways these programs can assist small- and mid-size and beginning farmers and ranchers and rural communities. Include small- and mid-size farmers and ranchers and rural community business and other leaders, rural researchers, extension agents and other potential beneficiaries in the training – to share what their needs are and what works and doesn't work.

Recommendations for USDA changes:

1. Include farmers and other end users, including organizations representing sustainable agriculture issues and concerns, in a very substantial way in the evaluation panels selected to review and rank the IFADS and NRI proposals.
2. Increase oversight of the RBEG program, which is administered at the state level through USDA Rural Development. Proposal evaluation procedures should include serious economic, environmental, and social and community impact assessments.
3. Clarify to state USDA Rural Development officials that RBEG can be used for projects related to agriculture. The message that RBEG cannot be used for agriculturally-related projects is communicated to farmers, ranchers and other agricultural interests in some states; many good projects that might benefit small- and mid-sized farmers and ranchers and their communities are going without resources because of a lack of understanding of the program.
4. An on-going program of education for USDA rural development and CSREES staff on the full utilization of their programs and how they can serve different constituencies such as small, mid-size, minority and beginning farmer/ranchers.

5. USDA should develop criteria to ensure that agricultural research and development programs simultaneously address issues of farm profitability, environmental protection and rural community success.
- “Advancing Science for Sustainability Experts Workshop, Reports and Recommendations,” Woodrow Wilson International Center, Washington, D.C., March 8-9 2004. Recommendations regarding the USDA-CSREES include:
 1. Reorient the CSREES mission around sustainability
 2. Lead the transition for a new science for sustainability
 3. Foster partnerships with other agencies, organizations and institutions to further the new science and its application
 4. Create a ‘sustainability review team’ that evaluates NRI initiative processes, principles and performance measures
 5. Coordinate and guide the regional centers’ integration of expertise to address sustainability problems of regional importance
 6. Create a National Sustainability Caucus
 - “Losing Ground: Failing to Meet Farmer Demand for Conservation Assistance,” Environmental Defense, December 1, 2001, <http://www.environmentaldefense.org/article.cfm?contentid=803> - Unless current spending on NRCS conservation programs like WHIP is significantly increased, farm experts estimate that:
 - Less than 20 percent of farmer need for irrigation-related assistance will be met between 2000 and 2005. More than 40 million acres of irrigated land need assistance.
 - Only 31 percent of needed rangeland assistance would be provided and 22 percent of need pastureland assistance would be provided. If demand for assistance were met, however, more than 12 million acres of rangeland and pastureland could be improved.
 - Only 10 percent of needed private, non-industrial forestland financial and technical assistance will be met, leaving approximately 200 million acres of forestland without needed technical and financial assistance.
 - Less than one-fourth of farmer and rancher demand for federal assistance to restore wetlands and other wildlife habitat will be met. If demand were met, more than 2 million acres of wetlands and other wildlife habitats could be enhanced or created on private land.
 - Land Stewardship Project, “Prosperous Farms and Healthy Land: Reforming U.S. Farm Policy,” March 7, 2005. – Recommendations: Prioritize ag appropriations earmarks that invest in research and demonstration of low-cost, sustainable farming systems that are appropriate and feasible for beginning farmers. Fully fund the Sustainable Agriculture Research and Education (SARE) program at USDA, and build on this excellent program to expand research and education on alternative cropping systems, low-capital farming opportunities, sustainable livestock systems, etc.
 - RESEARCH TITLE (TITLE VII) REFORMS (Cardoza memo): California agriculture faces a range of challenges in meeting more stringent water quality

and water conservation goals, and new air pollution control requirements. These challenges come at a time when the University of California Cooperative Extension Service has been dramatically reduced and its ability to provide farmers with practical, applied research nearly decimated. This assistance can be offered through the 2007 Farm Bill by creating within Title VII the Resource Stewardship Applied Research Initiative. This initiative would provide mandatory funds for FY 2007 through FY 2012. The funding would be used to create and disseminate applied research to help farmers in non-attainment areas meet air pollution control requirements, and to create and disseminate applied research to help farmers meet water pollution control and water conservation goals. The funds would go to agriculture extension researchers associated with state-supported institutions of higher education.

- USDA Task Force Announces Recommendations to Promote Agriculture Research
posted on 8/5/2004 10:58:23 AM

Urging that its recommendations be implemented without delay, the U.S. Department of Agriculture (USDA) Research, Education and Economics Task Force released its proposal for the formation of an institute of agriculture, modeled after the National Institutes of Health (NIH) and the National Science Foundation (NSF). In its recently released report, the Task Force outlines the formation and structure of a National Institute of Food and Agriculture (NIFA), which if created, is envisioned to become the centerpiece of the USDA's efforts to support agricultural research. Such an Institute, while housed in D.C., would be kept "separate" and "managed differently" from existing USDA programs and entities to ensure the development of "its own culture and establish its own methods of operation". Headed by a Director appointed by the President of the United States and confirmed by the U.S. Senate, the Institute's mission would be to "supplement and enhance" research currently funded by USDA. Among some of the key measures anticipated by the Task Force for NIFA to pursue are:

- Increase the international competitiveness of American agriculture;
- Develop foods that improve health and combat obesity;
- Create new and more useful products from plants and animals; and
- Improve food safety and food security by protecting American plants and animals from insects, diseases, and the threat of bioterrorism.

The Task Force tenders these criteria, along with several others, as guidelines to promote research that is both of the "highest scientific caliber" and "relevant to national needs and priorities". To fund such projects, the Task Force has conceptualized NIFA to be a "grant-making agency", funding scientific research that is approved and evaluated by two advisory groups envisioned as such:

- Committees of Scientists who apply rigorous merit review to all **grant** proposals;
- A standing Council of Advisers to assure the relevance and importance of the science NIFA funds.

With an annual budget that is suggested to grow to \$1 billion over a five-year period, NIFA would be expected to develop "its own culture of scientific excellence and innovation".

- FY06 Appropriations-Support for Enhanced Food and Agricultural Research, Extension and Education Funding” Committee on Appropriations, April 15, 2005, National Coalition for Food and Agricultural Research

The National Coalition for Food and Agricultural Research (CFAR) has made some key recommendations regarding support for enhanced food and agricultural research, extension and education funding. This coalition supports spending for both public and private research investments in U.S. agriculture in order to continue to help the U.S., produce high quality and affordable food and natural fiber. CFARs key conclusions from this report are:

- There is an appropriate and recognized role for federal support of research, extension, and education;
- Funding for FY06 for USDA, CSREES formula found programs (Hatch, McIntyre-Stennis and Animal Health and Disease) should be continued, at or above FY05 enacted levels;
- Administration should provide for expanded public participation, including during review of programs being considered for possible reforms or cuts.

In addition to ensuring that Americans are afforded high quality and affordable food and and natural fiber, the national CFAR encourages spending for agricultural research because the industry has created jobs and income within the agricultural sector, assisted with reducing the trade deficit, provided aesthetic and environmental benefits to the public, and has helped sustain important strategic resources.

Specifically, the food and agricultural sector and related industries provide over 20 million jobs (about 17 percent of U.S. jobs) and account for approximately \$1 trillion or 13 percent of the GDP. Agricultural exports average more than \$50 billion annually compared to \$38 billion of imports, contributing some \$12 billion to reducing the \$350 trade deficit in the nonagricultural sector. Proximity to open space not only enhances nearby residential property, but it provides wildlife habitats and ability of the land to provide valuable resources, such as recharged groundwater.

It is important that both public and privately funded research be conducted. Publicly financed research complements private sector research by focusing on areas that private entities do not have incentive to pursue. Public research is also important because it helps to provide oversight and measure long-term progress.

Although reduced public investment in food and agricultural research may be due to the notion that the U.S. food and agriculture is already successful, there are growing and changing societal demands which necessitate that agricultural research keep up its pace. The issue of bio-security, for example, is an increasing national priority. Likewise, the threat to national health from diseases such as foot-and-mouth and “mad cow” have become more pressing. Other areas that will need funding include environmental concerns, such as global warming, and farm income and rural revitalization through improved ability to be competitive and to adopt value-added opportunities. Finally, there is the need to build human capacity for expertise in the agricultural field through extension and education.

With the above in mind, the national C-FAR requests that the Senate Subcommittee and Committee to fund the Administration's request for food and agricultural research, extension and education for FY06.

XVI. OTHER ISSUES: WATER

The Issues

Water concerns in the United States include both water supply and water quality issues. Water supply concerns include the amount of water, who owns the rights to the water, and its distribution. Increased demand for water, coupled with droughts, has created strains on the availability of water in many parts of the US, particularly in the west. This has led to an increase in the number of state conflicts over allocation rights. The United States also faces an aging water infrastructure that could soon become inadequate to service the needs of the country.

The issues that currently exist in the arid western part of the country are potentially foreshadowing emerging water supply and transfer issues in the eastern part of the country. In the west, consumptive use exceeds more than one-half of renewable water sources under normal precipitation conditions. Under drought, however, the amount of consumptive use often exceeds the renewable water sources, resulting in the drawing down of water reserves, an untenable long run practice. The pace of urbanization, along with increased water demands in other sectors, could soon result in similar frictions that will need to be addressed in the more humid east.

Water quality concerns include soil sedimentation from erosion and the runoff of fertilizers (both organic and inorganic) and chemicals. In 2000, states reported that nearly 40 percent of assessed rivers and streams did not meet water quality standards. The Environmental Protection Agency gave the US coastal ecology and water quality a rating of fair to poor with no improvements being made in the last two years.

Agriculture is heavily involved in both issues. Irrigated agriculture remains the dominant use of fresh water in the United States, with agriculture accounting for nearly 80 percent of all water consumption. This value increases west of the Mississippi River. Water supply availability and reliability, ownership of water rights, distribution of the risk of water shortfalls, and the water delivery infrastructure are major issues that must be addressed to satisfy our country's competing needs and demands. As the dominant user of water, agriculture will likely alter its irrigation practices in response to the increasing demands for urban and environmental uses.

Agriculture is also one of the main contributors to nonpoint source pollution. Emerging challenges, such as nutrient and pesticide runoff and threats to endangered species, prompted ever larger increases in conservation/water quality funding in the 1985, 1990, 1996, and 2002 Farm Acts. The Conservation Reserve Program, the Environmental Quality Incentives Program and the newly funded Conservation Security Program are examples of USDA programs designed to help farmers address water quality issues.

Background

In addition to the natural variability of precipitation and geologic-based water storage opportunities, the water supply in the United States is partially determined by a complex mass of laws, rules, and rulings, where individual states' rights are usually paramount.

Whenever possible, policies of the federal government must conform to various states' laws. It can be difficult to provide water for federally-specified needs (e.g. the needs of federal lands, endangered species, Native American Tribes, etc.) given the variation in state policies.

In general, there are two sources of water for agriculture: surface water (about 60 percent of use) and ground water (about 40 percent). Surface water is diverted from streams and rivers or pumped from lakes or reservoirs. Diversion can cause shortages of water downstream with potential distributional and environmental consequences. Ground water, on the other hand, is pumped from underground aquifers. Some aquifers recharge so slowly that pumping water depletes the water supply. This could lead to land subsidence, salt water intrusion (in coastal areas), and a reduction in the water availability. Policies can be source appropriate and can encourage substitution between the two types of sources where both are available.

While the supply of water is a major issue we face in this country, we must also be concerned with the quality of the water that directly affects our health and the health of our ecosystems. In the United States, the status of water resources is determined by each state and by Native American tribes under section 305 (b) of the Clean Water Act. According to a report by the USDA (USDA, Dec. 1996 p.40), agriculture contributes sixty percent of the impaired river miles. To be sustainable in the long run, we need to establish better management practices to ameliorate the contamination of one of our most important natural resources.

Selected Characteristics

Any options for reform would ideally have the following characteristics:

- Address water quality and quantity issues with programs aimed at watershed and basin levels
- Consolidate national water policy to reflect current goals
- Establish working relationships between the various actors (federal, state, tribal, local, etc.) that promotes collaboration versus competition
- Educate the public (and public officials) about the complexity of water challenges and the need for funding to support water resources infrastructure
- More effectively reflect the opportunity costs of water in the prices paid by all users, including irrigators
- Provide incentives to adopt conservation programs that limit the use of water or increase water use efficiency
- Encourage the development of new, environmentally sound water resources

Reform Options

Possible options include:

- Create more regionally focused programs such as the currently successful and evolving programs aimed at restoring the Everglades, managing the California Bay Delta, and protecting Coastal Louisiana

- Reexamine national water policies. Many were created to address wants and needs that are vastly different than today's wants and needs. In addition, many are in direct conflict with each other. Policy implementation would benefit directly.

Expand green payments system: Replace existing conservation and water quality programs with a simplified (CSP-like) green payments program delivered through a single-whole farm planning process. Fund the improvements through a CCC-based entitlement limited to a fixed amount per farm per year. Base payments on environmental benefit of the improvement not its cost.

Research Group Suggestions

Outreach Group Suggestions

Summaries of Ideas on Water

(1)

Article Title: "Water Quality Initiatives and Agriculture"

Author: Claudia Copeland

Source: Congressional Research Service, February 16, 2000

Category: Water Issues

Introduction

Background information on three ongoing initiatives that may affect agriculture are provided in this report. The initiatives are: 1) the Clean Water Action Plan; 2) the Unified National Animal Feeding Operations Strategy; and 3) the implementation of the Total Maximum Daily Load (TMDL) provisions of the Clean Water Act. Agriculture, which has been a relatively minor component of water quality policies, is now involved in several aspects of these initiatives. This report includes a chronological timeline for the initiatives, as well as, a glossary of terms.

The Clean Water Action Plan

In October 1997, Vice President Al Gore directed the Environmental Protection Agency and the U.S. Department of Agriculture to coordinate the work of other federal agencies to implement an Action Plan to improve water pollution control efforts. Three goals were specified for the Action Plan:

- Enhance protection from public health threats posed by water pollution.
- Provide more effective control of polluted runoff.
- Promotion of water quality protection on a watershed basis.

Because the EPA contends that nonpoint sources of pollution (polluted run-off) are responsible for over half of the water pollution problem, the primary goal of the Plan is to address these specific sources of pollution. In February of 1998, four key tools were specified to achieve the clean water goals in the Plan:

- The use of collaborative efforts by government, the public, and the private sector to sustain healthy watersheds.
- Develop strong federal and state standards.
- Utilize federal natural resource and conservation agencies to apply resources and technical expertise to state and local watershed restoration and protection.
- Provide better information for citizens and public officials related to the health of watersheds, safety on the beaches, drinking water, and fish.

A key action within the Plan related to agriculture is the goal of reducing pollution from animal feeding operations (CAFOs). Currently, the Environmental Protection Agency (EPA) regulates such operations if they meet certain criteria. Under EPA's regulations, the rules generally prohibit discharge of wastewater from CAFOs into navigable waters. However, there are concerns with this regulatory system. First, fewer than 30% of the CAFOs with over 1,000 animal units had or have Clean Water Act permits today. There is also an issue of how many operators have kept the permits current. In addition, some sources remained unregulated because the EPA rules no longer reflect current technological advances in animal waste management.

Unified National Animal Feeding Operations Strategy

To address the issues regarding Animal Feeding Operations, in March of 1999, the EPA and the U.S. Department of Agriculture (USDA) jointly issued a unified animal feeding operations program to minimize the water quality and public health impacts of Animal Feeding Operations (AFOs). The strategy dictates that AFOs, regardless of their size, develop Comprehensive Nutrient Management Plans (CNMPs) intended to protect water quality and public health. Generally, CNMPs identify actions or priorities to meet clearly identified nutrient management goals at an agricultural operation and address manure handling and storage, land application of manure, land management, and recordkeeping, etc. The Plans are developed by qualified specialists and recognize the need for technical and financial assistance.

Some farmers and farm groups fear that a national AFO strategy will enable EPA, via clean water rules, to control their economic activity and land use decisions. Most prefer that any animal waste program be voluntary in nature. States have questioned the need for a national program and fear that new regulatory requirements will place extra burden upon already scarce resources. Environmentalists have been critical of the program because they feel that the timeline to implement the strategy (7 years to issue permits to all CAFOs) is too slow.

Total Maximum Daily Load Provisions (TMDL)

Under section 303(d) of the Clean Water Act, states are required to identify surface waters for which the already established discharge limits are not restrictive enough to achieve established water quality standards. For each of these water bodies, states are then required to set a total maximum daily load of pollutants at a level that ensures that applicable water quality standards can be attained and maintained. If these standards cannot be met, then the EPA has authority to establish TMDLs and to implement a TMDL, if necessary.

In response to the TMDL requirement, states have raised some concerns. First, there is a concern over the data to be used for listing impaired waters. Some states are concerned that if the data is not defensible, then the TMDL will be challenged. Therefore, many states prefer to use monitored data (proving scientific validity), versus evaluative information. Second, states generally prefer that the federal fallback procedure in section 303(d) be challenged and placed in the planning provision of the section. Third, states have expressed concern over the availability of resources to comply with the TMDL requirement, as well as the timeframes specified.

Conclusion

Congress' most recently acted amendments to the CWA require that agricultural operations be involved more than ever before. Because the amendments focus on nonpoint sources of pollution and agriculture is thought to be a major contributor to such types of pollution, a number of actions specified in the new Action Plan under the CWA focus on agriculture as a whole. It is expected that determinations of impairments and required actions will be site-specific and variable. Some controversy, however, exists over the whether or not nonpoint sources of pollution are lawfully covered under the TMDL program. If it is determined that only point sources are covered, then agriculture's responsibility under the CWA will be substantially less.

(2)

Article Title: Water Allocation and Management in the Western United States:
An Overview

Author: Douglas S. Kenney

Source: Natural Resources Law Center, University of Colorado

Category: Water Issues

Introduction

Water allocation and management in the American West is examined in this paper. The author provides a general overview of water issues within the region and analyzes the legal and administrative frameworks, as well as the need for reform. Broadly speaking, water rights in the American West have traditionally favored those who have arrived first in the region and/or those who have economic clout. As a result, there has been little emphasis on community control and there have been adverse affects on in-stream water areas and on the environment as a whole.

Regional Overview

Water issues in the West are categorized mainly within the context of competition. There is competition between agricultural and rural communities; between municipal and urban sectors; and between human and economic concerns and environmental and non-market utilization. Throughout the Western United States, agricultural water usage accounts for about 80-95 percent of human water uses. Although new technologies have helped to increase the overall efficiency of agricultural water use, the West uses water at a per capita rate that is three times the national average. One reason for this high rate may be the rapid growth of the region. According to the U.S. Census Bureau, from 1950 to 2000, the percentage of Americans living in the West has climbed from 13 to 22 percent. Much of the land in between the highly populated urban areas support economies through irrigated agriculture, ranching, mining, forestry, and tourism.

Legal and Administrative Frameworks

Although the federal government plays a strong role in governing water allocation due to its responsibility in satisfying American Indian, international treaty, public lands management, and environmental protection obligations, water allocation among individuals is primarily governed by the states. Each Western state has slightly different provisions and administrative arrangements, but all have systems based on the doctrine of prior appropriation. This doctrine stems from a water allocation problem during the California gold rush. During this time, mining camps often did not have enough water to extract and filter ore from local streams and as a result, built diversion structures upstream of existing mining operations. Because water flowing downstream would eventually diminish, this diversion strategy was seen as inequitable. Prior appropriation solved this dilemma by ensuring that waters once diverted or appropriated from a stream would remain available to the original user and would be off-limits to potential future users. Today, water rights through appropriation are officially recognized by permit or decree. Most states use permits, with the exception of Colorado, which uses judicial decrees. With a judicial decree, the water user must identify unclaimed water in a stream, must develop a structure to physically divert the water or must apply the water to

beneficial use. In the West, the prior appropriation doctrine is the dominant water allocation mechanism and also the region's "de facto" water policy.

Reform

Because Agriculture production uses the largest amount of water in the West, this region may require the greatest improvement. Historically, financial assistance, to include taxpayer money, for support of water projects has been prevalent. However, since the population of the area has increased dramatically, such support may no longer be warranted. There are three main perspectives on water reform in the West; 1) economic, 2) environmental; and 3) equity. Advocates of the economic perspective view water resources as an economic commodity. The notion here is that subsidies, to include taxpayer financing, contribute to water scarcity by placing undue restrictions on water transfers. The second perspective, environmental, seeks to preserve resources and looks at the impacts on water technologies (e.g., dams) on pollution. The third perspective, equity, encourages greater protection for excluded interests, such as tribes, rural communities, and areas of origin.

One of the main concerns over reform is the current lack of vision and absence of coordination between the three perspectives. One policy framework, therefore, could entail a broad emphasis on sustainability. Under this scope, water managers and political leaders should question inappropriate uses of water, such as the increased use of water for landscaping in arid and semi-arid regions. Within this framework, economic reform can also take place. Subsidies, for example, can be redirected to correct environmental harms. To address the lack of coordination, agency roles could be consolidated. Additionally, the notion of public input should be addressed. Currently, there is little opportunity for the public to become involved in water decisions that are equally important for them compared to the individual water owner.

Ideally, Western water reform should discourage excessive use, promote conservation and efficiency, and remedy past environmental abuses. In order to work toward these reforms goals, distorted incentives provided by prior appropriation must be removed. The creation of new types of water demands must also be avoided.

Conclusion

While the West has created an impressive array of water projects within its system of water rights, the costs in terms of economy, equity, and the environment have been substantial. The old system of rewarding either those who have first rights to the water or those who have the economic power to purchase those rights is no longer appropriate. Instead, a system that emphasizes community collaboration and proportional sharing should be considered as an alternative and effective way to govern Western water resources.

(3)

Article Title: Agriculture and Water Quality
Authors: Anna Barrios
Article Date: June, 2000
Source: American Farmland Trust
Category: Water Issues

This paper outlines strategies and policy recommendations for assisting agricultural producers in improving water quality through good land stewardship practices. New forms of water pollution (e.g. oil from automobiles) are stemming from America's farmlands as a result of dramatic increases in agricultural productivity and from population movement into rural communities. While agricultural operations have strived to maintain and improve water quality through strategies such as integrated pest management, the use of new biotechnology, improved pesticide and nutrient management planning, and livestock manure management systems, sound agricultural policies can help to further ameliorate some the adverse affects that agricultural production has on water quality.

Some major sources of water impairment from agriculture are sediment, concentrated animal production sites, and pesticides. Sediment often contains nutrients or chemicals absorbed into soil particles, which are then entered into streams and rivers as a result of soil erosion. Concentrated animal production sites have the potential for nutrient and bacterial contamination of water. Pesticides can pollute water via water run-off from field surfaces that enter into nearby water bodies.

The utilization of Best Management Practices (BMPs) to sustain yields and to protect the natural resources that produce them is proposed in this paper. Best management practices could entail reducing the potential for water pollutants by decreasing the availability of soil to become sediment, for example. Four BMPs are specified: 1) conservation tillage, crop nutrient management, weed and pest management, and conservation buffers. Conservation tillage, a system of crop production involving little if any tillage, is beneficial for water quality because it increases organic matter, improves soil tilth and increases soil productivity. With this method, soil erosion is reduced by 90 percent compared to regular tillage and farmers can also increase their profitability by reducing labor, equipment, and fuel costs. Crop nutrient management, the practice of matching nutrient availability to a plant's needs, entails looking at application rates, timing, and placement. By ensuring that the nutrients are actually being used by the plants, there is less nutrient loss and therefore nutrient run-off into our water system. Crop nutrient management can help increase profit per acre by increasing the efficiency of crop inputs and resulting yields. Weed and pest management involves a comprehensive approach to dealing with weeds and pests. Strategies used in weed and pest management include resistant plants, beneficial insects, natural enemies, barriers, physical treatments, and behavioral dismutants. The central idea is to match the best method for a given situation so that the benefits of control can be maximized. The fourth best practice, conservation buffers, involves small strips of land with vegetation, which serve to create slow water runoff, provide shelter, and to stabilize riparian areas. Buffers can reduce water contaminants from sediment by 80 percent, can reduce crop losses from flooding, and can provide tax incentives.

Strategies:

A key strategy that could be employed by farmers to improve water quality is the use of locally led conservation efforts. The overall goal of this strategy is to bring forth an inclusive array of ideas about how the land should be utilized. This sharing of ideas fosters the assessment of clearly defined goals, the identification of opportunities and constraints, and the clarification of responsibilities for water quality. An example of a locally led conservation strategy is the Ohio Environmental Protection Agency's low-

interest loan program. With this program, loans are approved for any conservation practice, equipment, or management change that has a positive effect on water quality. Locally led conservation efforts can also include assistance from local and state governments. An example of this type of effort is the examination of how permitted land uses affect aquatic ecosystems and the quality and quantity of surface and groundwater.

Public Policies:

Four public policy categories are described in this article: 1) voluntary actions; 2) incentives; 3) removal of policy barriers; and 4) regulations. The author of this paper suggests a balance of all four approaches. Economic incentives could include the federal government phasing out programs that encourage wasteful water use, such as irrigation subsidies. Higher taxes for more toxic chemicals could also be employed. The removal of existing policies that reward destructive farming practices may be necessary. A flexible approach that includes giving farmers different options for site specific plans to meet water quality goals should be encouraged.

Conclusion:

The extensive use of U.S. land for agricultural purposes necessitates that producers give special attention to how their operations affect water quality. Best management practices, such as conservation tillage and pest management, can help to mitigate some of agriculture's harmful effects to water quality. Ultimately, farmers must be seen as producers of commodities and stewards of the land.

<p>(4) Article Title: "Bringing Agriculture Back to Water – A Sustainable Solution for the 21st Century " Author: McNider, Christy, & Hairston Source: University of Alabama in Huntsville/Auburn University Category: Water</p>

This paper explains how a sustainable agricultural future, in light of the current and projected water resource concerns, might be obtained. The article includes an overview of how water supply issues related to agriculture have emerged. Present circumstances and future possibilities are also explored.

Background

At the turn of the 20th Century, most food was produced through rain-fed agricultural systems in the east and the mid-west. At that time, individual farmers incurred weather losses in specific places and years, but since all farmers eventually incurred losses, the mean market price adjusted to allow farmers to stay in business in times of uncertainty. In the 1950s, water projects for irrigation in the West built in the 1920s through the 1940s were being fully implemented. The availability of electricity additionally allowed farmers in the high plains to pump water from underground aquifers. As a result, a substantial amount of food and fiber for the country was being produced in the West. At the same time, rain-fed farmers in the east were faced with an intrusion into the market, in some respects, that removed drought losses as a cost of farming. Other historical events affecting water include world cotton markets, the advent of refrigerated transport,

faster rail networks, and the interstate highway system. These events fostered the unification of eastern and western markets.

Eventually, downward pressure on commodity prices was heightened by a substantial increase in agricultural productivity through improved genetic strains, advances in fertilizer blends, and farming techniques. Because it is not very easy to adjust for the variability of rainfall in rain-fed operations, western farmers were now in a better position to refine and improve their operations. The end result of increased productivity in the west from 1950-1990 was that agricultural output in the east decreased significantly. During this time, the south was hit hard. Average rainfall was plentiful, but extreme variability in time and space of rain in the growing season along with the poor water holding capacity of soil resulted in large productivity losses due to weather. The reduction of agriculture in the south was particularly harmful to rural areas. Small towns and retail industries dried up resulting in illiteracy, poverty, and poor health care in many parts of the rural south.

The Present

The water projects in the west built by the Bureau of Reclamation (BOR), the Corp of Engineers and federal/state partnerships were by economic standards a great success. The original intent of these projects was to attract farmers to the west. This was done by increasing agricultural production value rather than the number of small farmers. Continued population growth in the west has introduced competition for farmer's water. California municipalities currently face paying \$300 or more per acre-foot for water, while farmers pay \$15. Urbanites supporting economies that are isolated from agriculture often question whether the agricultural reward is worth the price they pay. Environmentalists criticize the environmental destruction of rivers and fisheries for the sake of agriculture. The Ogallala region now has a significant amount of reduced ground water from decades of pumping water. This reduction has forced many farmers to reduce their irrigated acreages. The recent draught in the west has accelerated water fights and concerns in the region, partly due to the realization that water capacity from the Colorado River is not what was initially predicted. In the south, farmers often do not irrigate because they can almost make it without irrigation practices. After weighing the costs and the benefits of irrigation, southern farmers are often unwilling to make such an investment on what they see as only a marginal return.

The Future

Population growth in the west is expected to grow at a fast pace. Because of this growth, many areas in the west will face depleted water supply at an accelerated rate. Cities such as Tucson, for example, have been forced to look to surface water supplies, which are currently being used by farmers. Requests for river restoration by western, urban environmentalists put additional demands upon the water supply. The overarching water issue in the west according to the authors of this article will likely be decreased water supply rather than increased consumption. Interestingly, the article indicates that paleoclimate data show that the recent climate of the west has been extraordinarily wet. In fact, the recent five-year drought patterns may actually be closer to the norm than an exception. Because of this information and because of the variety of water supply concerns in the west, some agricultural scientists question if the desert can be agriculturally sustainable in the future. According to the author, it is probable that the concerns of urbanites will override those producers.

Recommendation for a Sustainable Solution

The authors support a more natural and sustainable agricultural system for the U.S. However, they make a point to note that this does not require that agricultural production stop in the west. Rather, they suggest that western producers shift to higher value crops, which require less water. This shift could decrease the net agricultural water demand from 3.5 million acre feet. It is recommended that incentives for shifting to higher value crops or for relocating out of the west be established through the states, U.S. Department of Agriculture, and the Bureau of Reclamation.

The authors conclude by stating that the 20th century paradigm dictating that water be taken to agriculture be turned around. Therefore, a paradigm for the 21st century would be to take agriculture to the east, where irrigated assisted, rain-fed agriculture is sustainable.

(5)

Article Title: "Settling Water Rights Has Brought Stability To Farmers"

Author: The Idaho Statesman

Source: The Idaho Statesman – January 16, 2005

Category: Water

At a cost of \$68 million to taxpayers, the controversy over water rights for the Snake River in Idaho has been clarified through adjudication. This is a significant advance, since 170,000 conflicting claims were initially filed from cities, manufacturers, American Indian Tribes, and the federal government. Of the 170,000, 25,000 claims were dropped, leaving 145,000 claims to be reviewed. Currently, 85 percent of the remaining claims have been determined, according to Mike Keckler at the Idaho Department of Water Resources.

Tribal determinations comprised a major portion of the total claims filed. The Shoshone-Bannock Tribes reached an agreement to claim more than a million acres of water from rivers, reservoir storage, and underground sources, for example. An agreement with the Nez Perce tribe was also made to protect the tribe's right to fish on the Snake river basin, although this agreement is still pending congressional, legislative, and Tribal Council approval. Other major decisions include the ruling from the Idaho Supreme Court that the Wilderness Act of 1964 did not reserve a right for the federal government to use water to protect wilderness. This ruling makes a substantial impact for the desert areas that cannot rely on annual water coming from mountain snow.

Generally, the ability of state leaders and water users to negotiate agreements has reduced conflict in the adjudication process. Only one out of every 100 objections to water claims went to court, according to the Idaho Department of Water Resources. In this respect, the negotiations are likely to help speed up the review process. If the Nez Perce agreement is approved and all other cases are resolved according to plan, Keckler, of the Idaho Department Water Resources, expects the review process to be completed somewhere between 2008-2010.

(6)

Article Title: "Investing in Clean Agriculture: How California Can Strengthen Agriculture, Reduce Pollution and Save Money"

Author: Gary Wolff, P.E., Ph.D.

Source: Pacific Institute for Studies in Development, Environment, and Security

Category: Water

Sparked by both the increase of pesticide pollution in the state and by the constraints set upon farmers from global competition, suburban encroachment, tighter regulations, and input costs, the California Performance Review has initiated a proposal for significant farm reform in the state of California. While historically, the state has only looked at safe standards for pesticide use, policies that also encourage its reduction may be in order.

This report analyses a policy that temporarily increases the existing pesticide fee by 79 mills, with a rebate of most revenue to participating farmers. One objective of the proposed policy is to help farmers by assisting them in responding proactively to more stringent air and water quality standards that could be inevitable as a result of ever increasing urban populations. A second objective is to reduce the overall pesticide pollution and its environmental and health effects. If these objectives are met, then it is expected that the state and local governments will save money via reduced health, regulatory, and clean-up costs that are often paid with taxpayer money. It is thought that it will be important to set up and implement the proposed policy as soon as possible due to California's current budget crisis. Because urban pesticide users already pay approximately 50% of the pesticide mill fee, it is thought that a net burden will not be placed upon farmers due to this temporary increase. It is estimated that a reduction of 40%-50% in pesticide use can be made through innovative integrated pest management techniques. Assuming that these changes can be cost effective, the remaining barrier to change would be the uncertainty that some farmers have over the new technologies. For example, farmers who tend to take on risk conservatively may opt to give up some profit to reduce any variability the new technology may introduce. However, it is expected that new training could reverse some of this apprehension.

Increasing the pesticide mill fee will require a financial offset to the farm community in order to be politically feasible. One alternative may be to set the mill fees at the proposed rate of 45 and 27 as recommended by the Senate and Assembly committees respectively, but also to offer a rebate for farmers who reduce their pesticide use. It is recommended that in order to participate in the rebate program that each farmer attend an on-farm water quality and pest management course offered through the area Farm Bureau and that a one-page form be filled out possibly in conjunction with tax forms, so that all of the information would be available to issue the rebate check.

According to the author of this article, a temporary, higher mill fee to fund incentives for farmers who voluntarily reduce pesticide use is needed now before tighter, more expensive regulatory constraints are implemented. Reducing pesticide use also makes sense in relation to providing health benefits to the public and for conserving the environment.

XVII. OTHER ISSUES: BIOENERGY

Drawn from *Bioenergy: Pointing to the Future. A Five-Part Issue Paper*. Council for Agricultural Science and Technology. November 2004.

Agenda

An important theme of the Bush Administration's National Energy Policy Development Group's recommendations is the need to expand and diversify U.S. energy supplies. As Congress debates energy legislation, nonfossil sources of energy, including bioenergy, must be considered. Perennial biomass crops could become important, environmentally sound feedstocks for power, liquid fuel, and chemical production, creating new income opportunities for farmers.

National security and environmental concerns have prompted increased efforts to replace fossil energy with "home-grown" alternatives. The U.S. Department of Energy reports that in 2002 the United States consumed 97.7 quadrillion British thermal units, 86% of which came from fossil sources. This amount included 136 billion gallons of gasoline and 36 billion gallons of diesel fuel, 60% of which came from imported oil. Significant amounts of money and effort are spent to maintain an uninterrupted flow of oil to the U.S. Even if domestic and imported oil is adequate to meet U.S. needs, there are other concerns. Air and water quality also motivate interest in bioenergy. The use of bioenergy will decrease adverse greenhouse gas emissions compared with the use of fossil fuels.

Biomass from agriculture could displace 25% to 30% of U.S. petroleum imports. To supply that amount, the DOE in 2003 estimated that 1 billion dry tons of lignocellulosic feedstock would be required annually. Perennial biomass crops (e.g. poplar, willow, or switchgrass) could become important feedstocks and could be produced on land that was considered inappropriate for annual crops and idled for conservation measures during the past few years.

Rural Development

Bioenergy development can create new income opportunities for farmers, more jobs in rural communities, and an enhanced economy for rural America. The indirect social costs and benefits or an improved rural economy must be taken into account in the comparative prices that consumer pays for fossil-based versus biobased fuels. Economic conditions and new technological developments as well as public policy will determine whether or not bioenergy plays a more significant role in the future. For example, if the ethanol production facilities that currently use natural gas to power the ethanol plant were to use biomass and cogenerate, the net energy gained would increase significantly.

Farm Bill and Bioenergy

The 2002 Farm Bill provided income support for commodities. Increased demand from new bioenergy and bioproduct markets will likely increase commodity prices to farmers and in turn decrease the need for farm program payments. Higher prices for corn, soybean, and other grains will decrease the need for *ad hoc* supplemental emergency payments and decrease loan deficiency and marketing loan gains when prices are low. For example, the U.S. Department of Agriculture estimates that each 10-cent increase in corn prices could lower farm program outlays by approximately \$1 billion per year. The annual average market price for corn in 2003 was \$2.45 per bushel. The marketing loan benefit for the 2003 corn crop was \$39 million. Increased demand for ethanol to replace MTBE helped to boost corn prices and decrease the need for farm program payments in 2003.

Increased production of plant material for bioenergy production could have a significant effect on land use. One source of this impact could be a change in land use as CRP land comes back into production. From the standpoint of bioenergy, CRP land falls into three categories:

1. Approximately 810 thousand ha (2 million a.) of land planted to trees (15- to 20-year CRP contracts) has a substantial potential to provide biomass. Much of this forested land comprises pine plantations in the South.
2. CRP cropland returned to production in humid areas also has a strong potential to provide biomass.
3. The majority of CRP land is in semiarid locations and does not have great potential for intensive biomass production.

Land Use

Bioenergy can have land-use effects on land already in crop or forest production. An example of this is the use of biomass left on fields as a source of energy. Much of the gain in erosion control during the past 15 years has been through the adoption of conservation tillage, which requires management of residue. Actions to collect and use residue as a feedstock for bioenergy have a strong potential for increasing soil erosion unless they are managed carefully.

Intensifying biomass production on existing cropland will require the development and implementation of new production and conservation systems. Elements will include selection of specific species; development of nutrient, pest management, and harvesting protocols; and development of soil and water conservation systems.

There are large acreages in pasture and hayland, some of which could be farmed more intensively for the production of biomass. Bioenergy can also have land-use effects on land currently in forest production; gathering feedstocks after timber harvest or from actively growing trees can lead to soil erosion.

Wildlife

Bioenergy effects on wildlife stem from several sources. Adverse effects can result from the conversion of land from native habitat to biomass crop production as well as from the

intensification and specialization of crop production for biomass. Proper management can help minimize such adverse effects.

Water Quality

Beneficial effects can result from improved water quality caused by the use of highly erodible cropland for perennial biomass feedstock production as well as from improved nutrient management.

Research Group Suggestions

1. Technical assistance for energy conservation
2. Short-term help to start up bio-diesel operations
3. Economic incentives for energy production
4. Robust bioenergy component in renamed CSP
5. Make farmers eligible for payments for renewable energy production

Outreach Group Suggestions

Energy production

- Look at multiplier effect of redirecting oil \$\$ to domestic energy production
- Leverage federal funds—use Farm Bill for incentives?
- Utility pricing/metering an issue in some places
- Lack of farm infrastructure may be an issue
- Trade-off - energy incentives for commodity payments?

Summaries of ideas on bio-energy

(1)

Title: Biomass Research And Development Technical Advisory Committee
Recommendations.
Date: December 2001

A. Definition

Biofuels¹ are liquid fuels, produced from biomass, that are used in stationary and mobile applications. The Biomass Research and Development Act of 2000 defines biomass as: *“any organic matter that is available on a renewable or recurring basis, including agricultural crops and trees, wood and wood wastes and residues, plants (including aquatic plants), grasses, residues, fibers, and animal wastes, municipal wastes, and other waste materials.”*

B. Goals

The Advisory Committee has identified three primary goals for biofuels. They are to:

- By 2010 triple production of fuel from biomass sources, from 2000 levels, by removing technology and policy barriers.
- Provide benefits to farmers and forest landowners by increasing the value of agricultural and forestry products and assisting rural communities with economic development.
- Encourage investment by mitigating the financial risk involved in biofuels.

C. Challenges

Although important growth in biofuels consumption has occurred since 1999 there remain several technical and institutional challenges obstructing further increases in the use of biofuels. On the technical end, the growth of the biofuels industry will depend on its ability to effectively use all available environmentally appropriate feedstocks including agricultural crops and trees, wood and wood wastes and residues, plants (including aquatic plants), grasses, residues, fibers, and animal wastes, municipal wastes, and other waste materials. For the industry to make use of these resources, technologies that efficiently and inexpensively convert biomass feedstocks must be developed. The industry also needs improved chemical conversion technologies for the production of biodiesel along with enzymes and fermentation methods that can handle a greater variety of feedstocks and process them more efficiently into fuels. These technologies will help to bring down the cost of biofuels. Institutionally, the environmental benefits of biomass-based development must be properly codified and any related environmental issues must be appropriately addressed. These activities must be complemented by methods for developing and integrating effective management practices for crop production, transportation, and analysis. The management practices should be adapted from existing uses. Additional challenges include overcoming ethanol and biodiesel utilization issues and the need to develop a sufficient distribution infrastructure to transport biofuels from production locales to a broader market area on a large scale. Furthermore, these institutional and R&D solutions need to be integrated by biorefinery facilities that use the full value of all available environmentally appropriate feedstocks. The biorefinery concept must be fully demonstrated and a method to transfer results to

industry must be developed. In both the technical and institutional areas, particular attention must be paid to the fuel user community including increased attention to the properties and economics of combustion and gasification systems.

D. R&D Recommendations

The Advisory Committee has identified a number of areas in which research is needed to increase the use of biofuels, including:

Lignocellulosic Materials Research - The most valuable way to improve the availability of biofuels is to develop advanced methods of overcoming the resistance of agricultural, forest-based, and urban feedstocks to enzymatic and fermentation treatments. Current technologies for creating a treatable/fermentable product from available, environmentally appropriate biomass sources do not meet the needs of the industry. Additional research into the fundamental structure of lignocellulosic materials, including the chemistry of its cell wall structures, transport properties, and genetic properties, is required in order to improve growth rates and processing characteristics and make sufficient inexpensive resources available. At the same time, research into the agronomic, economic and environmental impacts of harvesting lignocellulosic material must be established to ensure that the use of these materials results in beneficial lifecycle impacts.

Pretreatment - In order to make utilization of both current and new feedstocks more effective, less expensive pretreatment processes are required. Advanced pretreatment will improve the cost and effectiveness of biomass conversion processes.

Catalytic and Chemical Processing – Catalytic and chemical processes for converting vegetable oils and animal fats into biodiesel are currently in use. R&D is necessary to improve the efficiency of processes and make them more cost competitive with nonbiobased products. As part of the development of the broader biorefinery concept, traditional thermo-chemical and catalytic processing will be important for conversion of starches, sugars and cellulosic materials into fuel.

Sensors - A quick, cost-effective system for on-line real-time analysis and maintenance of feedstocks must be developed. This system should monitor and maintain feedstock quality through the collection, storage, and transportation phases of the product life cycle. Additionally, systems should monitor growth so that harvest can occur at the optimum time for conversion.

Biorefinery – Biorefineries could potentially use complex processing strategies to efficiently produce a diverse and flexible mix of conventional products, fuels, electricity, heat, chemicals, and material products from all available, environmentally appropriate biomass feedstocks. The biorefinery concept must be evaluated and developed into real world models. Simple biorefineries are present today in some agricultural and forest products facilities. These systems can be improved through better utilization of waste products and by applying the lessons learned from existing facilities to comparable situations. These facilities convert wastes to fuel material and also upgrade fuel materials to product raw materials. The forest products and agricultural industries also produce byproducts and residue products that are commonly under-utilized or treated as waste. Finding higher-value uses of these products, as fuel should be a primary goal along with improving the processing efficiency of existing facilities.

Utilization - Research must also examine the fundamental properties of biofuels in pure form and in combination with petroleum-based fuels. For example, in the

case of ethanol, fundamental research could help overcome questions of vapor pressure, ozone impacts, ethanol life-cycle impacts, and transportation.

Systems Management - The systems that compose the biofuels industry include feedstock production and harvesting, feedstock transportation, fuel production, transportation of finished products, and distribution to end-users. These systems need best management practices and models to improve systems management and ensure overall systems integration and coordination.

E. Non-R&D Recommendations

The Advisory Committee has identified several non-R&D areas in which government activities can help to increase the use of biofuels.

Consistent Long-Term Policies - These are necessary to ensure the availability of loans and investment funding and to provide a sound footing for the development of new technologies. Current incentives such as the ethanol tax incentive have catalyzed the development of the fuels industry. In order to maintain the growth of the industry, financial incentives such as tax incentives should continue and incentives for other fuels including biodiesel should be investigated.

Coordinated Federal Effort - Increased integration is needed between the U.S. Department of Energy and the USDA in performing bioenergy and biobased products research, working with industry to identify research priorities, and transferring the results of research to industry. In addition, both the EPA and the U.S. Department of the Interior should be involved in ensuring the greatest positive results for the environment and the use of public lands.

Standards and Incentives - The market for fuels is driven by a variety of forces. The federal government has the power to encourage the use of biofuels through fleet standards, fuel standards, oxidation standards, and incentives. The government should work to continue the development of these mechanisms with the goal of creating positive environmental and efficiency impacts while driving the fuels market.

(2)

Article Title: "Synergism Between Agricultural and Energy Policy: The Case of Dedicated Bioenergy Crops"

Author: Daniel De La Torre Ugarte and Marie Walsh

Source: World Wildlife Fund, American Farmland Trust, & Henry Wallace Center for Agriculture and Environmental Policy - 2001

Category: Energy

The authors compare the similarities between the challenges of agricultural and energy policy. Sparked in part by the oil embargos of the 1970s and the Clean Air Act of 1990, concerns over sufficient fuels prompted a quest for alternative sources of energy. Biomass energy is currently considered to be among the viable energy alternatives. Farm commodity policy, in existence since the 1930's, has three basic elements, which make the reform of how economic resources are given politically unacceptable and challenging. Those elements are supply growth outpacing demand growth, inelastic crop supply, and inelastic food demand. The link between the challenges of energy and agriculture surfaces when one considers that agriculture, a historically large user of energy sources, is in a position to address this shortage by using alternative sources.

The use of corn-based ethanol, for example, was purported to not only alleviate some of the concerns over gasoline supply, but studies have documented that it has contributed to the agricultural industry by raising corn prices, farm income, and government savings.

There is an important distinction between dedicated energy crops and agricultural commodities used for energy. With dedicated energy crops, the competition is transferred from general crop use to the energy resource level. Dedicated crops are also perennials, and the processing of dedicated crops does not produce by-products that could depress other agricultural markets. Commodities used for energy, however, tend to be viewed in the short-term and therefore are less likely to impact the energy industry.

The 1996 Farm Bill, according to the authors, has showed that the basic characteristics of crop agricultural markets originating from commodity programs has remained unchanged. There is a high cost to subsidizing these commodities and downward adjustment seems to be political unfeasible. Given this scenario, the authors pose a counterfactual hypothesis: what would have changed if bio-energy policy based upon dedicated crops was pursued at the time of the 1996 Farm Bill? The results of their analysis show an estimated government savings of \$936 and \$1,682 million a year for the low and high price scenarios. This means that if the counter-factual scenarios would have been in place, performance of the sector would have improved and there would have been significant savings for the treasury.

The conclusion to this study indicates that if current agricultural policies persist, the implementation of an aggressive, bioenergy program could result in higher farm income and significant government savings, in addition to greater production of renewable and cleaner energy sources. The authors suggest that the additional research is necessary before the full benefits of bioenergy will be able to be realized. However, according to the authors, the money would be well spent.

<p>(3) Article Title: "Biomass for Electricity Generation" Author: Zia Haq Source: Energy Information System/Biomass for Electricity Generation Category: Energy</p>
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Biomass energy is used for power generation in several ways. It can be used in the electricity sector and for space heating in residential and commercial buildings, as well as for transportation fuel. Because electricity generated from biomass is expected to increase significantly over the years, Haq states that it is critical to evaluate the limits and challenges faced by the biomass industry. This evaluation is especially salient because biomass utilization can potentially generate environmental benefits. Compared with coal, for example, biomass feedstocks have lower levels of sulfur or sulfur compounds, therefore reducing sulfur dioxide emissions.

A major challenge is the task of estimating resource potential. The Energy Information Administration (EIA) estimates that there was 590 million tons of annual biomass available in 2002 within the United States. While historically, biomass consumption has remained at low levels, it is the largest nonhydroelectric renewable source of electricity in the United States. A major constraint related to the biomass resource potential has

been the cost of obtaining feedstock. Of the estimated 590 million wet tons available, only 20 million wet tons is available today at prices of \$1.25 per million Btu. The cost is high, partly because after each harvesting cycle of agricultural crops, only a portion of the stalks can be collected and used for energy production. It is estimated that 30 to 40 percent of the residues could be removed from the soil, depending upon the State. Another possible issue is the underreporting of potential resources. While corn, wheat, and soybeans represent about 70 percent of the total cropland harvested, agricultural residue supply curves typically only incorporate residues from corn stover and wheat straws. However, because residue from soybeans is relatively small and tends to deteriorate in the field, this issue may be somewhat unfounded.

The fact that energy crops are currently not being used commercially within the United States is also of concern. It is assumed that they will not be available until 2010. Adding to the problem of resource estimation is the variation in yields due to differences in weather and soil conditions across the country.

Other supply curve uncertainties include the uncertain market value of biomass materials, the impact of biomass removal on soil quality, the unknown factor of changes in forest fire prevention policies on biomass availability, and the increase of municipal solid waste that is recycled. Overall, biomass use for power generation is not expected to substantially increase by 2020, however, a slightly greater increase in growth is expected in renewable biomass resources.

(4)

Article Title: "Corn Farmer Survey Shows Very Strong Support for Wind Energy Incentives"

Authors: CropChoice news

Article Date: June 14, 2003

Source: CropChoice news

Category: Energy

A national survey of corn producers, conducted by RMA Research, Inc. of Sioux Falls, South Dakota, finds that a strong majority of producers support a range of critical issues related to the future growth of the U.S. wind industry. The farmers surveyed had at least one hundred acres of corn. Overall, U.S. corn farmers are unified by seventy, eighty or ninety percent on essential federal and state wind energy policies. Taken directly from this article, the key findings from the survey are as follows:

- Ninety percent of the corn farmers surveyed support the development of wind energy.
- Eighty-nine percent want the U.S. House of Representatives to quickly pass the same wind energy production tax credit extension as the U.S. Senate in order to encourage new wind energy projects.
- Seventy-two percent want a mandatory funding level of \$23 million or greater in Energy Title (Section 9006) of the farm law in the 2005 Bush Administration budget for the purpose of grants and loans to farmers, ranchers, and rural America to purchase renewable energy systems.
- Eighty-nine percent want farmers, industry and public institutions to promote wind as alternative energy.

- Eighty-one percent are more inclined to invest in wind energy because it helps clean the environment.
- Seventy-seven percent want farmers to be offered financial incentives such as production tax credits through government programs to encourage wind energy development.
- Seventy-seven percent want Congress and the Administration to make a major commitment to the promotion of wind energy and seventy-nine percent want them to encourage new transmission capacity.
- Eighty-eight percent want other state legislatures to follow the Minnesota wind incentive model.
- Eighty-five percent want rural electric coops to follow the law, the Public Utilities Regulatory Policy Act (PURPA) in accordance with the November 2003 Federal Energy Regulatory Commission with the November 2003 Federal Energy Regulatory Commission (FERC) ruling that ordered a rural electric coop to connect a farmer-owned wind turbine to the electric grid.
- Eighty-two percent agree that farmers, landowners and investors should be able to sell electricity from wind turbines to public power districts. They agree that public power districts should be required to purchase electric power from farmer-owned wind farms.

In addition to the above findings, since Nebraska is the only state to have a solely publicly owned electric power system, eighty-two percent agree that the Nebraska Public Power District (NPPD) should be required to purchase electricity from farmer-owned wind farms in Nebraska. This is a substantial piece of information considering that Nebraska has the sixth largest wind resource in the U.S. Complete survey results can be found on both the American Corn Growers Association (ACGA) <http://acga.org>, and the American Corn Growers Federation (ACFA) <http://acgf.org> websites.

Other references on bio-energy

- [O. Doering/speech/4-20-05] Prospects for the coming farm bill – Get serious about efficiency and opportunity cost in ethanol and biomass subsidies – be willing to ask if and when they make sense in the national interest.
- [Ken Cook/speech/4-20-05] – Top-down ethanol mandates are potentially bad investment for agriculture that would introduce perverse incentives into land use decisions, with uncertain environmental implications in order to fuel SUVs.

XVIII. OTHER ISSUES: RECREATION

The Issue

Comprehensive farm policy can have multiple benefits, including the protection/provision of rural amenities (e.g. wildlife habitat protection that allows wildlife viewing, hunting, fishing, etc.). The protection/provision of these amenities entails farmers engaging in conservation and other good stewardship practices. While many of these amenities have broad appeal and support, it is difficult for the farmer to fully internalize the benefits coming from these types of practices, creating an under-provision of these types of amenities. Federal programs designed to provide incentives for farmers to engage in these practices exist, such as the Conservation Reserve Program (CRP), Wildlife Habitat Incentives Program (WHIP), Grassland Reserve Program (GRP), Wetlands Reserve Program (WRP) and Swampbuster. Limited funding, however, has created backlogs in priority acquisitions, conversions, and program operations intended to increase farmer adoption of such practices.

Background

Every year, 1.5 million acres of wildlife habitat, a million of which is farmland and rangeland, is lost due to development and sprawl. This loss has not been significantly impacted by various federal and state conservation programs that provide recreational opportunities and other social benefits such as improved flood storage capacity and enhanced wildlife habitats.

The Conservation Reserve Program (CRP) is a voluntary program that started enrolling land in 1986. Under the program, contracts are established between the U.S. Department of Agriculture (USDA) and the agricultural producers and landowners to remove environmentally sensitive lands from production for 10-15 years. However, if too much land gets enrolled in CRP without finding alternative economic uses (such as outdoor recreation), demand for farm inputs could drop and harm the rural economies - especially those heavily dependent upon agriculture. To prevent this from occurring, enrollment in CRP is restricted to 25 percent of each county's cropland acreage.

Many studies have documented the positive impacts of CRP on erosion, water quality, and game and non-game wildlife. The value of the CRP's impact on environmental amenities is estimated to exceed 1.3 billion dollars per year (see USDA-ERS AER No. 834). Other research suggests that the CRP has also had beneficial effects on farm incomes and has reduced the costs of other farm programs due to reducing production and thereby increasing prices. To capture more of the benefits of their conservation practices, as well as to improve the goodwill between landowners, state fish and wildlife agencies, hunters, and anglers, many farmers allow access to their CRP-enrolled land for hunting and fishing.

However, the CRP and other programs aimed at conservation practices face difficulties in meeting the wants and needs of farm operators. WHIP could not fund 2,406 of its applications in 2002 and 3,600 of its applications in 2003. Landowner demand for the initial round of GRP funding in 2003 was said to be overwhelming. For example, in North Dakota, less than one percent of the application projects were funded, while in Nebraska, only 1.1% was funded.¹ The WRP faces challenges regarding technical assistance (TA) funding for state-level Natural Resources Conservation Service (NRCS) as NRCS attempts to balance TA and financial assistance. Approximately one-third of farmers and ranchers who want to enroll in CRP are turned away. Nationwide, demand for WRP has exceeded the annual acreage authorization by a factor of 3:1.

The largest issues seem to focus around providing incentives for farmers to place their lands into conservation practices, since they are not able to fully internalize the benefits of doing so. To achieve this, better funding to conservation programs and dissemination of information concerning alternative economic uses of their resources is necessary.

Selected Characteristics

The farm bill provides an opportunity to address the needs of the farming communities. Any proposal should:

- Increase funding for farm bill conservation programs

¹ Testimony of Jeffrey Nelson of Ducks Unlimited, before the U.S. Senate Subcommittee on Forestry, Conservation and Rural Revitalization, May 11, 2004. Washington, D.C.

- Expand CRP but dispel the impression that high CRP enrollment is associated with a net loss of jobs in some rural counties (see USDA-ERS AER No. 834)
- Encourage diversification of farmer income sources through recreational based business (e.g. wildlife viewing or hunting related businesses)

Reform Options

Options include:

- Given that farmland provides non-market benefits (e.g. open space), offering below market rate mortgages for conservation participants
- Fully funding conservation programs such as CRP, GRP, WHIP, and WRP to address unmet needs of farmers
- Providing additional funds for Farm and Ranch Lands Protection Program that helps farmers and ranchers keep their land in agriculture
- Continuing CRP/CREP as USDA's flagship conservation program. CRP should be reauthorized with a focus on enhancing and expanding the CRP "wildlife legacy"
- Fully funding TA to state level NRCS, made available through the Commodity Credit Corporation
- Improving information and education to farmers and ranchers to fully take advantage of their resources and aid in the development of alternative economic uses and agronomics

Research Group Suggestions

Outreach Group Suggestions