American Farmland Trust

Northern Crescent Research Group

Proceedings of the Workshop
March 24, 2005
Albany, New York

American Farmland Trust

SUMMARY OF THE FIRST MEETING OF THE NORTHERN CRESCENT RESEARCH GROUP

Reforming American Farm Policy

March 29, 2005

On March 24, 2005, 15 producers and nine policy experts from the Great Lakes and New England states met with American Farmland Trust staff to discuss reform of current farm policy. AFT sought out participants who understood farm programs, anticipated change and welcomed the opportunity to be sounding boards for research. The Northern Crescent Research Group is one of three research advisory groups providing their perspectives to AFT as we draft a reform framework for the 2007 Farm Bill.

Participants agreed that reform is inevitable. They identified global competition, higher land prices, an unsustainable low cost production system and consumer preference for products from environmentally friendly production as some of the drivers for reform. They felt that reform could offer a way to increase the competitiveness of U.S. agriculture and tie payments with the benefits that farms produce. However, they also warned that new policies may have unforeseen consequences. Desired goals for farm policy ranged from abundant, affordable and safe food to enhanced economic viability, improved conservation, better farm succession planning, increased technological innovation, enhanced infrastructure, ensuring access to markets, avoiding market distortions, assuring productive land remains in farming, and funding public research and extension to meet desired public goods. We did not try to reach consensus on goals.

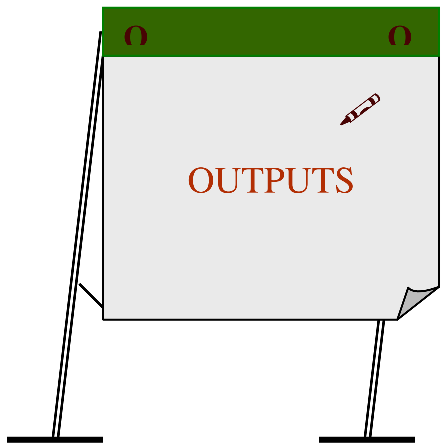
We discussed what's good and bad with current farm policy. The group identified 50 "good" and 67 "bad" points and voted on the most important. They want to keep elements in current farm policy that shift more funds to conservation, provide a safety net for producers (good risk protection and stability for producers/income), support an Extension system, offer cost-share funds to address environmental concerns (the Environmental Quality Incentives Program (EQIP)) and ensure programs are voluntary. They want to change elements that lead to inequities in program payment distribution across regions, encourage unhealthy dependency on subsidies, discourage expansion of dairy herd size, provide too little conservation funding relative to demand, fail to address the unfair competition from imports, do not consider the benefits farms produce as a basis for distributing funds, do not strengthen food security and fail to address growing regulatory pressures.

Four small groups then independently designed their ideal farm policies:

- Enact a safety net for everyone with enhanced crop insurance that provides some degree of revenue assurance, protection from catastrophic loss, federal right to farm legislation and access to health insurance; shift to conservation payments with adequate technical assistance, funding for research and development, cost-share for new environmentally sound technologies, a conservation security program-type approach tied to the value of the crop and/or cost of land, and farmland protection programs with succession planning; and enhance food security by point of origin labeling, quality assurance programs for different commodities and establishing a "strategic reserve" for all U.S. produced commodities (protecting land and its ability to produce).

- Maintain only safety net payments that provide income in unusual years, cover crop failures and make up for poor markets; streamline and condense conservation programs by function and goal; and shift to a Conservation Security Program-type program, using Environmental Quality Incentives Program funding to help producers become eligible for Tier One payments. As a prerequisite to receive safety net and conservation payments, farm viability plans (business plans) would be required. Regional boards would direct conservation funding as appropriate and establish priorities for funding. Farmers would be required to partially reimburse conservation cost-share funds if land leaves farming within five years.
- Scrap crop insurance and put funds into a rainy day/voucher account. Link a significant portion of payments to community benefits with a transition strategy. Conservation payments may provide a suitable vehicle. Establish a floor price for commodities (as in the 1996 Farm Bill). All programs should be tailored to regions, support local food security and allow greater flexibility at the local level.
- Eliminate current commodity programs and base safety net payments on farm income. Decouple payments from commodities grown, using historic net farm income to determine base payments. Administer the base program nationally with payments reflecting good farming practices, adjustments for capital expenditures/gains and mechanisms to permit new farmers. Enhanced payments would then be based on conservation and community benefits. Examples include maintaining the local tax base, watershed protection/water recharge, farmland and open space protection, wildlife habitat, local economic multiplier, energy (renewable production) and food security to limited resource individuals. Each region would get a lump sum to administer for enhanced payments. The Conservation Title would be simplified to address installation of conservation practices with adequate funds for technical assistance. The Commodity Title would cover base and enhanced payments (maintenance).

In addition to the Northern Crescent, AFT is listening to research advisory groups of producers in the Upper Midwest (the Heartland) and in the coastal regions where most fruits and vegetables are grown (the Fruitful Rim). We are also meeting with a wide variety of other groups including ranchers in Colorado and limited resource farmers in Georgia. Based on this feedback, we will design a policy reform framework and analyze possible impacts over the summer. Our three research advisory groups will reconvene in the fall to react to this work and help us improve the design.


OUTPUTS

o Group Discussion Outputs o

I. Drivers of Change

- Awareness of inequities
- Urban sprawl – closer relationship between urban and farm constituencies
- Higher land prices
- Low cost production unsustainable
- Global competition
- Consumer preference for products from environmentally friendly production
- Oversupply of bulk commodities
- Federal energy policy (potentially)
- Global competition (especially for specialty crops)
- Threat of another disaster bill
- Bioterrorism threat
- Public outrage about farm payments vis-à-vis other uses for public funds
- Lower profitability of farming

o Group Discussion Outputs o

II. Concerns

- Need to direct dollars to things that increase the competitiveness of U.S. agriculture
- Payments should be commensurate with benefits produced (environmental)
- Need to identify broader stakeholder community and educate them
- "Safety Net" vies with environment as a policy goal (though they can be balanced)
- Need to think more broadly about community and other social benefits
- "Cheap food" makes for low farm income
- Beware of unintended consequences
- Level playing field, including support of fruit, vegetables, other specialty crops
- Conservation Security Program potential
- Failed "safety net"
- Lower cost of foreign commodity production is a constraint on American farms
- Both environmental friendliness and production activities are costly and compete with one another
- Risk management can substitute for farm payments
- Should we be moving towards value-added activities?

o Group Discussion Outputs o

III. Desired Objectives of Farm Policy

Group-think about rationale for current/future farm programs. No consensus reached and no prioritization attempted

- Abundant, affordable and safe food.
- A safe and secure food system.
- Enhance the economic viability of farming.
- Increase exports.
- Conservation natural resources.
- Facilitate succession planning for long-term viability.
- Assure productive land remains in farming.
- Fund public research and extension to meet these other public goods.
- Support communities through local marketing.
- Increase technological innovation for sustainability, food quality and the environment.
- Enhance the infrastructure.
- Direct support to mid-scale farming (part of maintaining economic viability)
- Level regulatory playing field.
- Insure voluntary, not regulatory, approach.
- Protect U.S. agriculture from unfair foreign competition.
- Ensure access to markets (regardless of farm size)
- Avoid market distortions.

IV. What's Good with Current Farm Policy

(number of votes)

1. Funds going to commodity farmers.
2. Safety net is there for low prices (7 votes)
3. Support for water quality.
4. Diversity of available program options.
5. Shift to more conservation (12 votes)
6. Conservation Security Program (CSP) (6 votes)
7. Stability in farm operations (3 votes)
8. Public awareness of conservation by farmers (1 vote)
9. Cost-share helps share burden of investments.
10. Environmental Quality Incentives Program (EQIP) (9 votes)
11. Help with changing operations by specialty crop provisions
12. Keeps farmers politically visible (1 vote)
13. MLIC program provides a good safety net covering both income and value
14. Helps some new and beginning farmers.
15. Availability of crop insurance and market loss assistance as safety net (7 votes)
16. AMA (agricultural management assistance) focuses on the business of farming.
17. Farmland preservation (6 votes)
18. Sustainable Agriculture Research and Education Program (SARE) (7 votes)
19. Begins to address Northeast issues.
20. Nutrition programs, food security and addressing hunger are part of the farm bill (2 votes)
21. Moves ahead innovation through conservation innovation and partnership grants (2 votes)
22. Farm payments help us maintain a way of life.
23. Sustains critical mass of businesses supporting agriculture (6 votes)
24. Recognizes the importance of grasslands (1 vote)
25. Provides research on conservation benefits.
26. Maintains a large land mass under crops.
27. More dollars for the Northeast (6 votes)
28. Risk Management Agency (RMA) has enhanced crop insurance programs that provide better coverage and more flexibility.

What's Good with Current Farm Policy (continued)

29. Farm viability centers (1 vote)
30. SARE producer grants to help farmers innovate (2 votes)Value added producer grants
31. Improves public perception of farmers when they talk about conservation on the farm
32. Assistance with Integrated Pest Management tactics (5 votes)
33. Regional equity provision for conservation (1 vote)
34. Voluntary nature of programs (7 votes)
35. Wetland Reserve Program
36. Energy title (5 votes)
37. Research title (3 votes)
38. Recognition of organic farming
39. Food aid programs
40. Farmers markets/nutrition programs
41. LDPs and other safety net mechanisms like loans
42. Encouragement for grazing (2 votes)
43. Support of Extension (10 votes)
44. Animal and Plant Health Inspection Service (APHIS) important to agriculture
45. Cranberry acreage reserve program
46. Reform and strengthening of dairy programs through public hearings
47. Consolidation of local offices to provide one-stop shopping for farmers
48. Rural economic development options
49. Technical service providers (intention good, implementation bad) (3 votes)

Group Discussion Outputs

V. What's Bad with Current Farm Policy

(Number of votes)

1. Poor implementation of technical service provider option (1 vote)
2. Inequity (in regions, commodities, size of operations, dollars) (14 votes)
3. Lack of flexibility on the part of agencies to adapt approaches
4. Inefficient use of federal dollars for conservation
5. Inability of federal agencies to standardize data (1 vote)
6. Doesn't disseminate information in easy to understand formats (1 vote)
7. Too little support for new technologies (4 votes)
8. Long lag time for creation and implementation of new insurance programs (1 vote)
9. Farms become dependent on payments (8 votes)
10. Inadequate local staffing to carry out programs.
11. Lack of regional differences for programs
12. Diversity of programs leads to confusion
13. Rewards bad actors, not stewards (2 votes)
14. Inflexibility of program administration (3 votes)
15. Farm bill programs are confusing to the public
16. Lack of benefits testing for dollars spent (6 votes)
17. FSA/NRCS have fewer field staff available because of increase in paperwork, switch in responsibilities and poor coordination (3 votes)
18. Limited scientific validation of best management practices.
19. Encourages production for global markets versus local markets (2 votes)
20. Poor implementation of legislative intent.
21. Lack of regional representation on Congressional Agricultural committees
22. Inability to regionally target EQIP dollars on areas where most needed
23. MLIC limits herd size and adversely affects income (8 votes)
24. False sense of security (producers always expecting to be bailed out)
25. Obsolete Conservation Reserve Program (CRP)
26. Too little conservation dollars to meet demand (8 votes)
27. Possible negative effects on world trade
28. Field offices have limited knowledge about scope of programs
29. No economic viability screening before award of grant/cost-share funds (2 votes)
30. Lack of cohesive vision (5 votes)

o Group Discussion Outputs o

What's Bad with Current Farm Policy (continued)

31. Inflexibility of FSA lending programs
32. Conservation programs discriminate against land and community values
33. Land use, land price and crop mix determined by commodity programs (1 vote)
34. Farm bill promotes the use of marginal lands for production (1 vote)
35. Fails to address the problem of imports (8 votes)
36. No real locally led conservation (1 vote)
37. Program induced land values inhibit entry of new farmers
38. Crop insurance costs too much (3)
39. Programs have a negative impact on farmers in other countries
40. Unintended consequences of previous farm bills – crop insurance requires whole farm loss
41. Lack of systems approach to farm plans and best management practices (4 votes)
42. Farm bill weak on food safety issues (1 vote)
43. Farm bill weak on food security issues (6 votes)
44. Top down priority setting (2 votes)
45. Failure to implement county of origin labeling (5 votes)
46. Lack of accountability of performance of conservation programs (monitoring/enforcement) (4 votes)
47. Conservation dollars lost when operations are discontinued
48. Regulatory pressures not addressed by current programs (6 votes)
49. Fails to help new operations with capital expenditures/needs
50. Fails to recognize environmental benefits of agriculture
51. Fails to stimulate real innovations (1 vote)
52. Poor classification of producer/processors for milk marketing boards (1 vote)
53. Unnecessary overlap of LDPs and countercyclical payments
54. Poor implementation of the Conservation Security Program (5 votes)
55. Mandatory allocation of local EQIP dollars to livestock (1 vote)
56. Bad EQIP program scoring excludes some commodities
57. Large matching cash requirements make innovation grants too difficult to get

o Group Discussion Outputs o

What's Bad with Current Farm Policy (continued)

58. Failure to communicate that farm policies keep food cheap (1 vote)
59. Best Management Practices can't address large scale nutrient balance issues
60. Failure to harmonize federal and state meat inspections (2 votes)
61. Adjusted gross income program limitations for conservation programs
62. Buyers and suppliers have more influence than farmers or the public
63. Failure to regionalize conservation programs by watersheds, flyways, cooperative efforts, etc.) (5 votes)
64. Not enough publicly funded research on new varieties, genetically modified crops, etc. leading to ownership issues (2 votes)
65. Erosion of support for publically funded research (4 votes)
66. Commodity program incentives favor yields over other objectives
67. Failure to stop loss of farms (numbers) (5 votes)

VI. Highest Vote Getters: "What's Good, What's Bad" with current farm policy:

GOOD (votes)

- Shift to more conservation
- Provision of safety nets
- Supports an Extension system
- Environmental Quality Incentives Program (EQIP)
- Voluntary nature of programs

WRONG (votes)

- Inequity of program payment distribution (across regions, across commodities; among farm types and sizes)
- Farms become dependent on payments and find change difficult.
- MILC limits on herd size adversely affect farm income.
- Too little conservation funding relative to demand for conservation support.
- Fails to address the problems of imports.
- Lack of benefits testing as a basis for distributing funds.
- Weak on food security issues.
- Does not adequately address growing regulatory pressures.

Discussion Notes: Drivers of Farm Policy Reform

Need to understand unintended consequences - identify pitfalls and resolve them

Need a broader distribution of support

Need to structure aid so that is a safety net versus a reliance upon the money. Currently consider it a "failed safety net."

Drivers of reform:

<u>Inequity</u> - need an awareness of who receives money and who does not.

> Although need to "be careful what you ask for" - if increase net farm income through policy, could induce entry into market, increasing competition and driving down prices.
>
> Also, there is the issue of government payment to corporations vs. family farms. Need an awareness of who is a family farm.

<u>Urban Sprawl</u> - public support and common environments. Northeast is a highly populated area - meaning farmers and non-farmers share common environments. The interaction between the two sets of players will drive reform. One issue that is very important is land prices.

> Knowledge also an issue - general public doesn't know where food comes from. Take for granted the low prices. Come to expect/demand cheap food.
>
> Need connections between marketability and how produced in an environmentally sound manner (to award, or provide incentives, for those who produce with environment in mind)
>
> Need to understand who the "true farmers" are.
>
> > Some take advantage of farm programs to adapt fields to optimize non-farm valuation/others "create wetlands" to receive government money

<u>World Trade</u> - Imports mean prices drop. This means government payments become more important - which could mean a drive to change to commodities (corn, etc.) which could induce an oversupply of standard commodity crops, which would throw the whole system "out of whack."

> Country of Origin Labeling (COOL) as a way to diminish level of imports

Energy Policy - Create incentives for ethanol production

Threat of a disaster bill

Bioterrorism

Decreased profitability of farming - a big part of this is perceived due to imports

Other notes before next session:

Environmental friendliness vs. economic viability
  Should get paid for risk management and environmental issues
  Should increase minimum wage (so that people could afford to buy food at higher prices?)

Should increase awareness of what payments do for farmers (at least for small and mid-size farmers) - spread awareness of costs, not just benefits (the website with benefit payments should include costs so doesn't look so lopsided)

Payments to producers should be based on the value of the benefits (e.g. conservation), not necessarily just on production

Farmers should also be looking to tie in to other sectors of the economy (tourism, etc.) to create a broader set of stakeholders ("coalition strengthening") which would ease the ability of using conservation practices.
  Bring in the community more should be third "leg" of policy - income support; environment; community support
  Should identify (and spread information about) societal benefits to increase awareness and community support

US Farmers should perhaps be looking to shift to value-added production (e.g. value added processing/packaging)
Let low cost production (due to cheap labor, etc.) occur in other countries [comparative advantage argument]

Small-Group Discussion Outputs: Goals for Farm Policy & Payments

TABLE 1
(Bryan Petrucci, Jesse Robertson Dubois)

I. New Farm Policy Ideas

1. Safety net (for everyone)
   - Enhanced crop insurance program that provides some degree of revenue assurance
   - Protection from catastrophic loss
   - Federal right to farm legislation
   - Access to health insurance (?)
   - No means test

2. Shift to conservation (voluntary and no means test)
   - Technical assistance
   - Research and development
   - Cost-share for new environmentally sound technologies and practices (equipment)
   - CSP-type approach (tied to value of crop and/or cost of land)
   - Farmland protection programs (succession planning)

3. Food Security
   - Point of origin labeling
   - Quality assurance programs for different commodities
   - "Strategic Reserve" for all U.S.-produced commodities (protecting land and its ability to produce)

II. PAYMENTS DISCUSSION

25 Percent Reduction in Subsidies:

- Land Costs
  Renegotiate rents on marginal acres
  Could probably take 25 percent loss and still keep good land
  Need land too much to let any go
  No room for negotiation in many areas (due to competition)
- Cuts to conservation practices
- Reductions in inputs
- Lower capitol expenditures for equipment
- Dairy producers need to have 2.4 M number limit lifted

100 Percent Reduction in Subsidies:

- Reduce to top two thirds of highest producing acres
- No infrastructure investment
- Absentee landowners would:
  - Consider longer term options
  - Would have no impact with come conservation owners
  - A number who depend on rents would sell for development
- Shift rotations away from corn
- Try to hunker down for a year or two

Bonded Buy-Out

Where would the dollars go? How would the payment be used?

- Pay down debt
- Set aside some for retirement
- Buy more land
- Will cause some shifts from some crops to others

Benefits

- Less dealing with government
- May be another program down the road
- Compete at world market prices? Maybe and maybe not. Depends on a lot of other factors
- Diversification? Some shift in crops

TABLE 2
(Ann Sorensen; Erik O'Donoghue)

I. New Farm Policy Ideas

Maintain only safety net payments that provide income in unusual years, cover crop failures and make up for poor markets for all farm-produced products including livestock. You could use a MLIC approach to set target prices for all commodities

Streamline programs: Streamline and condense conservation programs by function and end goal

Shift to a Conservation Security Program-type program that would be available on a voluntary basis

- Consolidate programs around geographic challenges such as soil or water (e.g. FRPP, CRP, Grasslands)
- Use EQIP cost-share funds to help producers become eligible for Tier One CSP

As a prerequisite to receive safety net and conservation payments, farmers would have to have farm viability plans (business plans) to ensure our public dollars are solidly invested. Extension or cooperatives could help design and implement these plans.

One approach to allocating conservation dollars would be to establish regional boards (based on USDA extension regions) to direct funding as appropriate and establish priorities for funding. The amount of funding going to regions would be determined by the use value of the production and population numbers.

Other items:

Enforce country of origin labeling and educate public about U.S. produced food

More support for research, extension, work on new technologies

Mandatory (?) agricultural literacy programs in schools (like Ag in the Classroom)

Cost-share funds for conservation over $X have a penalty built (e.g. require partial pay-back) in if land leaves farming within five years

II. PAYMENTS DISCUSSION

Lottery winner discussion with farmers not receiving direct payments

Annual payments = 10 percent taxable income over 20 years (for this group, this represents about $3,650/year)

Non-farm household spending:

- Goes up very marginally, not many changes
- Diversify with outside off-farm investments
- Increase household savings

Farm operation changes

- Invest in things that lead to more profit
- Spend on equipment to avoid taxes

Annual payment equivalent to 50 percent of your annual income ($18,250)

Non-farm household spending:

- Health insurance
- College tuition
- Plan for retirement and exit strategy
- Traveling

Farm operation changes

- Add value-added operations like winery
- Invest in labor-saving capitol equipment
- Invest in drip irrigation (low return)
- Speed up expansion plans
- Buy land next door
- Hire extra labor

[note: table participants felt they really need IRAs or retirement accounts so they can safely put extra dollars back into their farm operations]

Payment is lump sum (after taxes) equal to 10 times taxable income ($365,000)

Non-farm household spending:

- Trip/vacation
- Home improvement projects

Farm operation changes

- Invest in something sound, probably not the farm
- Invest part off-farm, part on-farm
- Hire extra labor

$1 million tax free lump sum

- Land purchase
- Start raising bees, give up vegetables (too management-intensive)
- Buy out family members to own 51 percent of stock in farm
- Invest all to get annual income
- Pay off debt
- Upgrade buildings
- Redesign and landscape farm/work environment
- Invest in processing e.g. good local butcher
- Employee benefit package
- New truck with extended cab and all amenities to haul vegetables to market
- Give up off-farm job
- Develop value-added products
- Increase charitable contributions

TABLE 3
(Kevin Schmidt and David Haight)

I. New Farm Policy Ideas

Crop Insurance

- Create farmer savings account or rainy day account with seed $ provided from funds saved by eliminating current crop insurance system
- Systemic problems
- Put experience rating on crop insurance so that premiums differ with their loss history
    - People with multiple years of losses will pay higher premiums
    - Greater flexibility for insuring farm units or sub-farms

Link commodity payments to higher conservation standards

- Find a balance
- Take away LDP and DP payments (most trade distorting)

Significant portion of payments should be linked to community benefits with a transition strategy. Conservation may be the vehicle for this. Have a floor price for commodities a la 1996 Farm Bill.

Loan program is essential for planning decisions
Any safety net should be based on need.
Don't want a means test to stifle innovation. Holes in the safety net should still allow for failure.

For all programs:

- Tailor programs to regions
- Programs should support local food security
- Greater local flexibility
- Block grants to states/region

Community Benefits

- Preserved land should rank higher
- Benefits could be to environment, local communities, etc.
- Should we scale payments for good benefits to populations?

Block grant to state/region for conservation

Make land purchase tax deductible for "farmers"

How are conservation payments determined?

- What is appropriate way for determining rental rates?

II. PAYMENTS DISCUSSION

10% over 20 Years

- Not enough $ to spur major changes
- Blend into operating (home or business) or use for personal leisure

50% over 20 Years

- Depend on Age
- Pay down debt
- Make capital investments
- Make non-farm investments

Lump Sum – 10x Taxable Income

- Pay down debt
- Create retirement funds
- Farm transition investments
    - Capital improvements
    - Buy farmland

TABLE 4

(Bob Wagner and Rob McCracken)

I. New Farm Policy Ideas

Unequal distribution of MILC payment – change to make more family-friendly

Eliminate current commodity programs. Base safety net on farm income. Decouple payments from commodities grown. Couple to historic net farm income to determine base payment. Enhanced payments would be based on conservation and community benefits. End up with safety net and enhancement payments.

Community benefits (enhancement payments):

Maintain local tax base
Watershed protection/water recharge
Farmland/open space protection
Wildlife habitat
Local economic multiplier
Energy (renewable production)
Food security to limited resource individuals

Base program would be nationally administered. Base payment/income needs to reflect:

- Good farming practices
- Adjust for capital expenditures/gains
- Mechanism for new farmers

Each region would get a lump sum to administer for enhanced payments.

Conservation title remains but needs to be simplified and technical assistance needs to be adequately funded. It addresses installation and Commodity title addresses maintenance (CSP).

Need locally relevant research and extension.

Next farm bill needs to specifically address nutrient imbalances and movement and redistribution and/or alternative products to the benefit of all.

II. PAYMENTS DISCUSSION

Lottery winner discussion with non-farmers

The group discussed how lottery winnings would impact their household or business decisions. Responses are listed in rank order.

<u>Annual payments = 10 percent taxable income over 20 years</u>

- Invest for retirement
- Invest in your business (capitalization)
- Pay down debt
- Invest in business diversification

<u>Annual payment equivalent to 50 percent of your annual income</u>

- Invest for retirement
- Pay down debt
- Purchase luxury items
- Invest in your business (capitalization)
- Invest in business diversification

<u>Payment is lump sum (after taxes) equal to 10 times taxable income</u>

- Purchase luxury items
- Invest for retirement
- Pay down debt
- Invest in your business (capitalization)
- Invest in business diversification

Notes from Table Discussions: Goals for Farm Policy & Payments

TABLE 1

(Bryan Petrucci, Jesse Robertson Dubois)

I. New Farm Policy Ideas

Design an alternative farm policy/program that keeps what is good and addresses what is wrong.

The group started out by trying to find consensus on a smaller group of objectives for a model farm policy. The group quickly agreed that the primary objective of farm policy should be improved farm profitability. From there, the discussion moved to the dynamics of international trade with an emphasis on the unfair dumping of foreign agricultural products, particularly fruit and vegetables, on US markets. Challenged to define the policy objective in this area, the group discussed both food safety and long-term food security. On the food safety side, participants mentioned the use by foreign producers of chemicals prohibited in the US. In discussion of the food security, Dorance described the objective as ensuring that the US never becomes as dependent on foreign food as the nation currently is on Mid-East oil. Robin further pointed out that "the demise of every great civilization is linked to the demise of its agriculture." These points were linked back to the earlier discussion of threats to US fruit and vegetable production, but broadened to all commodities. As Kenny put it, "we're all in this together."

Asked whether these food safety and food security goals were "safety net" goals, participants agreed that they were part of the rationale for having a safety net, but were also larger, strategic goals that farm policy should address.

They agreed that the "safety net" should consist primarily of risk management tools, broadly defined to go beyond traditional crop insurance to also include improved revenue insurance tools and protection from catastrophic losses. This was distinguished from the counter cyclical payments, which were viewed more as profit enhancements, and were viewed as poorly calculated.

Additional safety net issues mentioned included:

- "right-to-farm" issues— although acknowledging possible Constitutional issues, the group felt there was a need for federal right to farm protection to standardize and strengthen state protections
- Countercyclical payments needed to assist w/ smaller market downturns that do not trigger crop insurance payments.

Laura asked whether this is the role for CSP and /or other conservation programs. Other participants felt that conservation programs, if providing some income stream in addition to cost-sharing, could play part of this role if "production-driven," "supportive of profitability" and "doesn't take land out of production." Citing the regulatory review costs of new agricultural chemicals, one participant stated that conservation programs should reach beyond on-farm practices and include R&D & outreach to improve the safety and effectiveness of materials & equipment. In addition, conservation programs should do a better job of handling rented land and different land tenure situations. Finally, cost-share on conservation equipment is needed, as was authorized (?) but not implemented under EQIP, possibly in the form of block grants. Laura stated that the focus should be a CSP-type approach, that despite problems (esp related to different crops grown and cost of land), there was real value in the program. Farmland preservation in particular was felt to need a broad effort involving corporations & the public, given the political realities and given the "bad taste" that farm state commodity groups "have in their mouth about conservation." There is a difference between what the commodity farmers will say privately and what their organizations publicly,

Political reality is also that these are taxpayer-funded programs and public at large doesn't see much direct benefit. "People say: 'We don't subsidize used car lots or other businesses, why should agriculture be different.' We need to get the business motive back into farming."

Conversation then returned to "the safety net," with the acknowledgement that conservation can be a safety net.

Returning to food security as a concept, the group discussed how to make it a national security issue. Dorance pointed out that buyers are increasingly requiring additional safeguards on their products, citing Gerber's requirements for production records and traceability back to "point of bloom" for apples used in their baby food products. Robin pointed to Country of Origin Labeling requirements and others discussed how that might help, but Dorance suggested that its not enough to just label the country of origin if production practices and standards are lower in other countires, because first consumers won't know the difference and second it won't alleviate the competitive disadvantage that US producers face.

The group roundly rejected means testing, but seemed more open to payment limits.

The group also mentioned better access to health insurance for farmers as another area that would substantially help maintain a farm safety net.

Finally, the group returned to the need to maintain base support for farm commodity, including specialty crops, through something like a "strategic commodity reserve." This concept was discussed in broad terms as a hedge against global competition designed to ensure a base level of US production capacity.

II. PAYMENTS DISCUSSION

Small group discussing the impact of reductions in payments on individual prducer decisions.

25% cuts

- Look to land rents first, renegotiating or dropping marginal acres, when possible. Renegotiation not an option for some farmers—too much competition for land between farmers and with other land uses.
- Reduce production costs where possible, eg. nutrient applications, and slow equipment replacement
- Cut conservation investments, e.g. interseeding corn

100% cuts

- Would cut back to best 2/3rds of acreage, seriously consider development on idled or other acreage—development would be a very viable and attractive option
- Dairy and specialty crop producers would not have option to cut back—too much capital infrastructure. They're either in or they're out.
- Throughout Northeast from PA to ME, would expect little if any impact on land values—would lead to higher feed costs without reductions in land costs.
- Low current capital gains rates would lead to more sales than would otherwise be the case—especially among land controlled by absentee landlords, but other landlords would not make any changes b/c economic considerations are not primary factors
- Would lead to shifts in crop rotations
- This group of farmers would mostly hunker down and ride it out, hoping to wait out the bust and pick up land and equip cheap and capitalize on rebounding prices after production crash

Bond buyout concept—reaction and use of proceeds

- Pay down debt and keep going (although smart thing might be to cash in and get out
- In non-cash-grain parts of Northeast, would not bring much $ to the region but would have big impact due to feed prices, shifts in production in Midwest
- Don't believe it would last—capitalize on buyout cash, then wait 7 years and get a new program—like after the dairy buyout
- Larger grain farmers could produce at world market prices (after a few rough years)
- Dairy and specialty crop producers would have a much harder time, with relatively more of their costs dependent on energy, debt load, etc, and too much infrastructure to diversify
- Grain farmers more able to shift crops, diversify, etc

TABLE 2

(Ann Sorensen; Erik O'Donoghue)

I. New Farm Policy Ideas

Design an alternative farm policy/program that keeps what is good and addresses what is wrong.

- Maintain ONLY a safety net that will provide income in "unusual" years for all farm produced products (including livestock, specialty crops, etc. - but no processed products)

  (dairy has no interest in subsidies - would be happy to get rid of them)

  Definition of "unusual": natural disasters, crop failures, market conditions

- Consolidate programs and shift to more of a green payment program (like CSP)

  There are too many programs that do similar things and can create "multiple payments" (i.e. multiple sets of payments for the same bushel of output) - consolidate and streamline them (e.g. FRPP, WRP, etc.) by end use (e.g. for water; for soil; etc.). This would help farmers understand what they are eligible for and what they need to do. ("90% of northeast [corn?] farmers didn't even know they were eligible for payments") Farmers can also find out what the programs are for and how to administer them more easily and successfully.

  Enhance use of EQIP program to use as a stepping stone to allow people to get to the green programs.

  Perhaps use MILC as a program to base on (due to its transparency)

  Have one office to house this information so know where to go and when and that will have appropriate help staff when get there

- Create a Regional board that distributes federal funds (federal board allocates funds to regions, regional board distributes funds based on knowledge of the more local issues)

  Will help prevent inequities; ensure that different size/regions have same access to environmental programs

  USDA extension regions could be regions used (should be standardized)

Base funding to each region on value of production; number of farmers; number of acres of land in crops; population (since environmental issues become more important with increases in population)

- How deal with imports?

  COOL and educate consumers on use of pesticides, safety issues, etc. Create brand name (grown in USA)

  Worried about issues like forcing other countries to use same practices as US farmers - e.g. banned practices here should be banned there as well (DDT, etc.)

  This could lead to retaliatory measures - that may not be constrained to agricultural issues. So might want to stay away from such concerns.

- Research and technology support
- Help with exports (not gotten into much)
- Create a program that requires farms to have a viability plan if they want to be involved in programs (income support or environmental)

  This would provide support for developing and implementing such a plan

  Idea is to not throw away money. In other words - want to ensure (to the best extent possible) that farmer will succeed. Don't want farmers receiving (limited) government payments and then going under. This is a waste of resources.
- Cost-share land enhancements and impose a penalty if receive above $x and sell within y years for non-farm purposes.

  $x limit so that won't be penalized for receiving a small loan/program payout and have land with restricted use

  y year limit so that cannot receive a certain amount of money, make enhancements to land (which could improve desirability for other uses) and then sell (for those other uses). There was an example - a farm received a large chunk of money to plow under stone walls, etc. that could not be done by real estate developers (laws against it). However, the laws allow farmers to do so. So the farmer did this, got proper drainage going, and turned around and sold the property for a large amount of money. Again, a waste of (limited) resources and is to "get around" the laws - deceitful. Should be stopped.

Follow on comments - if have an easement, would give them priority to EQIP funds? Easements don't tend to work in Northeast too well - value of land too high for easement payments, but in general, a good idea.

Viability plans - get money to help develop this type of program. Is to determine enhancement, but realize cannot legislate entrepreneurship.

<u>YELLOW TABLE follow on clarifications:</u>

Base payment would be based on net farm income (tied to social security numbers)

Enhancements would be regional; base payments national

<u>GREEN TABLE follow on clarifications:</u>

"Rainy Day Fund" - voucher based on historic production - ROTH like. Allowed to take out on a rainy day (vs. the perceived non-actuarially fair crop insurance program). If have money left over at end - use as a pension fund that can dip into when retire.

Who would be covered? Same people as under current status quo.

<u>RED TABLE follow on clarifications:</u>

"Strategic Reserve" - productive capacity - land mainly (keep land in productive use so that if need it, can use it for particular purposes). Site specific land use and productive capacity (including knowledge? Farmers?)

II. PAYMENTS DISCUSSION

Lottery Questions:

Asked whether or not the lottery winnings were contingent upon being a farmer (i.e. did get "winnings" because were farming or because had entered a "general population" lottery). Was asked because they said it would make a difference as to how their spouse would have an ability to help allocate the winnings. If was because they were farmers (that they won lottery) then they could justify spending the money more easily back into the farm. Otherwise, they would probably end up spending a much larger portion on the household and household needs.

A farmer then argued that "what (AFT/ERS) were trying to do was to map how we (farmers) would spend extra money. So consider it as if you had higher earnings every year."

Bottom line: not entirely sure how the farmers ended up perceiving what the payments were or how they were gotten. Keep this in mind when looking at the results.

Also - at their own request - they offered to write down their AGI - (although not sure if this included off-farm income) - turns out to be an average of $36,500.

Scenario 1: 10% of AGI each year for 20 years

Invest in farm profitability
No changes on farm - too small a dollar number
Try to diversify (to off farm activities - investments and savings mainly (ROTH, IRA, etc.)

There are tax implications they would take into account - capital vs. outside investments...

Scenario 2: 50% of AGI each year for 20 years

Health insurance
Savings for tuition (since no longer eligible for college tuition waived) - relates to succession too
Travel
Retirement

Go into value added opportunities (winery, etc.)
Invest in labor saving capital equipment (so can take more time off)
Trickle drip irrigation - for efficiency AND stewardship concerns
Speed up expansion plans

Buy land next door
Diversify (again, off farm savings, etc.)

I believe sentiment was towards choosing one of above mentioned ideas - not really enough money to pursue multiple actions.

Scenario 3: 10 times annual AGI Lump Sum

Now have enough to pursue multiple actions - some on farm, some on household

RETIREMENT was a big issue
Take vacation
Home improvement projects

Big projects still not able to be undertaken - too large startup costs.
Worries about asset-specificity - would need larger amounts of money to enable large projects

Scenario 4: $1 Million tax free lump sum

Purchase more land

Restructure (give up vegetables - most labor/management intensive, really difficult - move to bees - easy, relaxing) - would have invested $1M and living off interest.

Buyout stockholders in farm (so can pass on to children).
Invest to get an annual income - then worry about the farm.
Payoff Debt
Give up off-farm job!!!
Upgrade buildings
Consider investing in processing capabilities
Employee benefit packages
Better capital (truck with refrigerator, automatic, a/c, extended cab)
Redesign farm - "make it pretty" for farmer and customers - get farmer's own workspace in better shape.
More value-added project development
Community charitable contributions (would come last, but would increase)

TABLE 4
(Bob Wagner and Rob McCracken)

I. New Farm Policy Ideas

Design an alternative farm policy/program that keeps what is good and addresses what is wrong.

The group began its discussion by trying to address potential reforms to the Milk Income Loss Contract (MILC) Program. Before the discussion was able to take off, someone mentioned that the commodity by commodity approach to farm policy is one of the biggest issues facing reform. Instead of addressing the needs of all producers, it pits regional interests against each other. In order to overcome this problem, it is important to remove the commodity specific nature of current farm policy from discussions surrounding reform.

As a result of this initial comment, the group developed a new farm policy around the following concepts.

- Establish new "safety net" program
  - Eliminate current commodity programs and create a new program open to all producers
  - Program would decouple payments for the commodities produced
  - Payments would be based on historic net farm income (5-year average) or other income related factor
  - Payments for beginning farmers and ranchers would be based on county average until 5-year average is established
  - Producers would receive payments in years when their annual net farm income falls below their 5-year average
  - The program would be administered nationally
  - Base payment/income needs to reflect:
    - Good farming practices
    - Adjust for capital expenditures/gains
    - Mechanism for new farmers

- Enhancement payments
  - Producers would receive enhancement payments based on the benefits they provide the community
    - "Almost like extra credit for the benefits farmers provide outside the farm gate"
  - Payments would not be based on the quantity of commodities produced so would be WTO compliant
  - Open to all producers on a voluntary basis

- Not based on market prices or income
- Would not count against historic farm income calculation for safety net payments
- Producers could receive payments for:
  - Maintaining the local tax base
  - Protecting watersheds
  - Implementing conservation practices
  - Preserving farm and ranch lands
  - Providing wildlife habitat
  - Producing renewable energy
  - Serving as a local economic multiplier
  - Addressing food security issues for limited resource individuals
- List of eligible enhancement activities would be determined at the regional or state level
- Each region would get a lump sum to administer for enhanced payments
- If the base payment (safety net) is low enough it sets a floor. Good farmers benefit by adding on enhancements. In that respect it is almost like a minimum wage. Farmers are guaranteed a certain income, but if they want to increase it they need to take on additional responsibilities.

- Conservation programs
  - Existing conservation title would remain but it needs to be simplified to eliminate redundant programs
  - The conservation programs would be used to provide cost-share funding for the installation of practices that help farmers become eligible for safety net payments (compliance) or enhancement payments. The enhancement payments would provide funding for the maintenance of the practices and the benefits produced.
  - Need for increase in technical assistance funding

- Extension
  - Need locally relevant research and extension.
  - Address local and immediate needs that may arise

- Nutrient Issues
  - Next farm bill needs to specifically address nutrient imbalances and movement and redistribution and/or alternative products to the benefit of all.
  - Programs should address new regulations that are imposed on farmers
  - Nutrient issues need to be addressed at the regional level rather than at a farmer by farmer level
  - Provide fertilizer producers with incentives to use natural rather than synthetic fertilizers