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

Preface

The Commission on 21st Century Production Agriculture was established by the Federal Agriculture Improvement and Reform Act of 1996 (FAIR Act). The purpose of the Commission was to conduct a comprehensive review of changes in the condition of production agriculture in the United States since the date of enactment of Title I of the FAIR Act, the Agricultural Market Transition Act (AMTA). The Commission was also charged with conducting a subsequent review with recommendations for legislation on the future of production agriculture and the appropriate role of the federal government in support of production agriculture. The findings and recommendations of the Commission are of a strictly advisory nature to the President and Congress.

The Commission was composed of 11 members. Three members were appointed by the President, four members were appointed by the Chairman of the Committee on Agriculture of the House of Representatives, and four members were appointed by the Chairman of the Committee on Agriculture, Nutrition, and Forestry of the Senate. Recommendations by both committee chairs were made in consultation with their ranking minority members.

The Commission presented the first report to the executive branch and Congress on May 1, 1999. The Commission held 14 meetings, most in Washington D.C. Field meetings, however, were held on risk management in Kansas City, Missouri, and on small and disadvantaged farmers in Atlanta, Georgia. In addition, the Commission held a series of six public listening sessions in Fresno, California; Spokane, Washington; Denver, Colorado; Chicago, Illinois; Montgomery, Alabama; and Scranton, Pennsylvania.

During the course of their meetings, the Commission solicited the views of nearly 60 experts on various issues including risk management, the future of agriculture, policy development, trade, and small farms. At the public listening sessions the Commission heard testimony from more than 200 farmers, ranchers, and representatives of farm organizations and agribusiness, rural residents, and other stakeholders representing 30 states. The information provided in the meetings and the public listening sessions played an important role in developing the Commission's recommendations contained in this report.

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**** Contains Minority View(s)***

Transmittals

January 31, 2001

The Honorable George W. Bush
President of the United States
The White House
Washington, DC

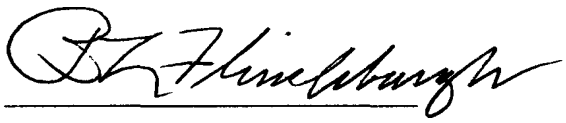
Dear Mr. President,

On behalf of the Commission on 21st Century Production Agriculture, we would like to present you with this report, **Directions for Future Farm Policy**: *The Role of Government in Support of Production Agriculture*.

In accordance with sections 183 and 184 (a.) of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, the Commission on 21st Century Production Agriculture has completed its review of the appropriate role of the federal government in support of production agriculture. This report is the result of many months of hard work and compromise with general agreement on most of the issues, with the exception of some respectfully dissenting views.

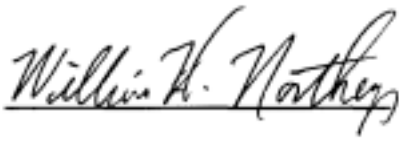
The Commission encourages you and your Administration to consider the recommendations and suggestions of this report in finding long-term solutions to United States production agriculture policy concerns. Identical letters have been sent to the United States Senate Committee on Agriculture, Nutrition, and Forestry and to the United States House of Representatives Committee on Agriculture.

Respectfully submitted,



Barry L. Flinchbaugh
Chairman, Kansas

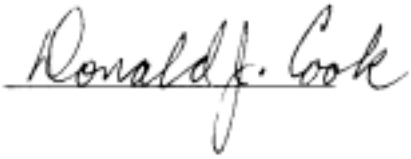
Bruce J. Brumfield
Mississippi
**subject to minority views presented in section 6*



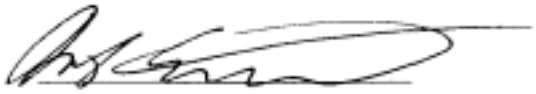
William Northey
Iowa

John Campbell
Nebraska
**subject to minority views presented in section 1*

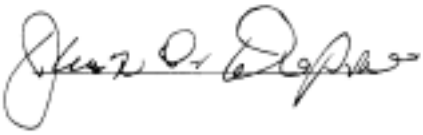
Ralph Paige
Georgia
**subject to minority views presented in sections 1 and 6*



Donald J. Cook
Oregon



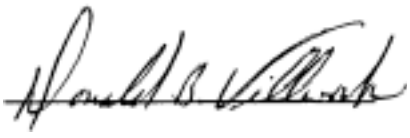
Bob Stallman
Texas



James O. DuPree
Arkansas
**subject to minority views presented in sections 1, 4, 6, and 7*

Leland Swenson
South Dakota
**subject to minority views presented in sections 1, 4, 6, and 7*

Charles E. Kruse
Missouri



Don Villwock
Indiana

January 31, 2001

The Honorable Larry Combest, Chairman
United States House of Representatives
Committee on Agriculture
1301 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman,

On behalf of the Commission on 21st Century Production Agriculture, we would like to present to you this report, **Directions for Future Farm Policy**: *The Role of Government in Support of Production Agriculture*.

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The Commission encourages you and your committee to consider the recommendations and suggestions of this report in finding long-term solutions to U.S. production agriculture policy concerns. Identical letters have been sent to President Bush and the United States Senate Committee on Agriculture, Nutrition, and Forestry.

Respectfully submitted,

January 30, 2001

The Honorable Richard Lugar, Chairman
United States Senate
Committee on Agriculture, Nutrition, and Forestry
328-A Russell Senate Office Building
Washington, DC 20510

Dear Mr. Chairman,

On behalf of the Commission on 21st Century Production Agriculture, we would like to present to you this report, **Directions for Future Farm Policy**: *The Role of Government in Support of Production Agriculture*.

In accordance with sections 183 and 184 (a.) of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, the Commission on 21st Century Production Agriculture has completed its review of the appropriate role of the federal government in support of production agriculture. This report is the result of many months of hard work and compromise with general agreement on most of the issue areas with the exception of some respectfully dissenting views.

The Commission encourages you and your committee to consider the recommendations and suggestions of this report in finding long-term solutions to U.S. production agriculture policy concerns. Identical letters have been sent to President Bush and the United States House of Representatives Committee on Agriculture.

Respectfully submitted,

Commission Members

BARRY L. FLINCHBAUGH, Ph.D., Chairman

Dr. Flinchbaugh is professor and extension state leader in the Department of Agricultural Economics at Kansas State University. A native of York, Pennsylvania, he received a B.S. in Animal Science and an M.S. in Agricultural Economics from Pennsylvania State University and a Ph.D. in Agricultural Economics from Purdue University. Dr. Flinchbaugh has served on the faculty at Kansas State since 1971. Besides teaching an agricultural policy course, he has also served as special assistant to the president of Kansas State University. He has won numerous teaching awards and recently was awarded the prestigious Hildreth Award for career achievement in public policy education. He is one of the nation's leading agricultural policy specialists and is the author of many publications, including a policy textbook. Dr. Flinchbaugh participated in two Japanese trade missions and has led several Kansas agriculture groups on tours throughout the world. Dr. Flinchbaugh was appointed chairman of the Commission on 21st Century Production Agriculture in 1996. He is a member of Rotary International and Kansas Agricultural and Rural Leadership, and serves on the board of directors of First Bank in Manhattan, Kansas, and on the board of directors of the Kansas City Board of Trade.

BRUCE J. BRUMFIELD

Bruce Brumfield is partner in Brumfield Plantation and FTB farms, partnerships that produce cotton, soybeans, corn, small grains, and catfish. He also serves as vice president and board member of Duncan Gin, Inc., in Inverness, Mississippi. A native of Mississippi, Bruce earned his B.S. in Animal Science from Mississippi State University and has been involved in diversified farming for 37 years. Mr. Brumfield has also served as president of the Mississippi Cattleman's Association, Delta Council, National Cotton Council, and the Inverness Rotary Club. He was appointed to the Commission in 1997. He is chairman of the board of the Community Bank in Indianola, Mississippi, and a board member of Delta Western, Inc., and Delta Pride Processors, both in Indianola. Mr. Brumfield also serves on the board of Staplecotton in Greenwood, Mississippi; Delta Industries, Inc., of Jackson, Mississippi; and Bell, Inc., of Inverness, Mississippi.

JOHN B. CAMPBELL

John Campbell has served as vice president for corporate affairs and industrial products at Ag Processing, Inc. (AGP) since December 1991. He works in the areas of ethanol marketing; production and marketing of new industrial products from soybean oil such as biodiesel and cleaning solvents; new business development; strategic planning; and public and government affairs. A native of Nebraska, Mr. Campbell earned his undergraduate degree from the University of Nebraska. He began his career in 1979 working for his home state representative, Congresswoman Virginia Smith. Mr.

Campbell served on the Senate Agriculture Committee under the leadership of Senators Jesse Helms and Richard Lugar. He was responsible for all commodity and commercial export programs such as the Export Enhancement Program (EEP) during congressional consideration of the 1985 farm bill. Mr. Campbell also served on the personal staff of Senator Rudy Boschwitz, where he was co-author of decoupling legislation finally approved in 1996 under the Freedom to Farm Act. While on leave of absence from the Senate Agriculture Committee in 1986, he took advantage of a Rotary scholarship to earn his postgraduate diploma in Agricultural Economics from the University of Sydney in Australia. Mr. Campbell then joined the USDA and was responsible for developing and coordinating the 1990 farm bill strategy for the Administration and supervising the implementation of the legislation. He also assisted the Administration in developing and implementing dairy, natural disaster, and trade policies. From May 1989 to December 1991, Mr. Campbell served as deputy undersecretary for international affairs and commodity programs. The undersecretary's office was responsible for the operations of the Agricultural Stabilization and Conservation Service (now the Farm Service Agency), the Foreign Agricultural Service, and the Office of International Cooperation and Development. Mr. Campbell was appointed to the Commission in 1996.

DONALD J. COOK

Don Cook is retired from his post as general manager of the Pendleton Grain Growers (PGG) of Pendleton, Oregon. He is a native of Pendleton, where he was raised on a wheat and cattle ranch. He earned his B.S. degree in Agronomy from Oregon State University in 1950 and has worked his entire career for PGG, beginning in 1950 as a retail salesman and power sprayer operator at the Hermiston, Oregon, branch. In 1956, Mr. Cook was named manager of that office and during the next eight years supervised its expansion. He became branch manager in 1964 when PGG merged with a local company. He was responsible for all branch operations including petroleum, hardware, feed mill, custom fertilizer, and extension and control of credit. In 1967, Mr. Cook joined PGG's main office in Pendleton as manager of the Grain Division responsible for trading and shipping seven million bushels annually. He also served on the company's credit committee and union negotiation team. Mr. Cook was then named general manager of PGG in 1971 and by his retirement in 1992, PGG's annual volume had grown to more than $100 million. Mr. Cook has served as director and president of the Pacific Northwest Grain Dealers, director and vice president of the Oregon Agriculture Co-op Council, member of the U.S. Chamber of Commerce Food and Agriculture Committee, director and president of North Pacific Grain Growers, member of the Governor's Task Force Reviewing State Government, and board chairman of Associated Oregon Industries. Mr. Cook was appointed to the Commission on 21st Century Production Agriculture in 1997.

JAMES O. DUPREE

Jim DuPree is the managing operator and partner of DuPree Planting Company, a general Arkansas farming operation. A native of Newport, Arkansas, he received his B.A degree from Hendrix College, Conway, Arkansas. He has worked as a special aide for agricultural policy to Senator Hodge and Senator Bumpers. Mr. DuPree also helped craft a comprehensive farm bill in 1978. In 1995, he worked closely with Senators Daschle and Pryor on the Democratic alternative to the Freedom to Farm Bill. He was appointed to the Commission in 1997 and also serves as president of the Farmers Electric Cooperative and president of the Brekenridge Water Users Association.

CHARLES E. KRUSE

Charles Kruse serves as president of the Missouri Farm Bureau Federation and its five affiliated companies. A native of Stoddard County in southeast Missouri, he received his B.S. in Agronomy from Arkansas State University in 1967 and his M.S. in Agronomy from the University of Missouri in 1973. Mr. Kruse has served as a technical representative for an agricultural chemical company, on the University of Missouri Board of Curators, and as executive vice president of the North American Equipment Dealers Association. In 1985, Governor John Ashcroft appointed Mr. Kruse director of the Missouri Department of Agriculture. He has served on President George H. W. Bush's Council on Rural America, on U.S. Trade Representative Carla Hill's Intergovernmental Advisory Committee, and on Governor Ashcroft's Coordinating Board for Higher Education. In 1994, the University of Missouri honored Mr. Kruse with both the Faculty/Alumni Award and the College of Agriculture's Alumnus of the Year Award. Mr. Kruse was appointed to the Commission in 1997. In March 1998, United States Department of Agriculture (USDA) Secretary Dan Glickman and U.S. Trade Representative Charlene Barshefsky appointed him to the Agricultural Technical Advisory Committee for Trade in Grains, Feeds, and Oilseeds. Mr. Kruse raises corn, soybeans, wheat, and cotton on his farm near Dexter, Missouri.

WILLIAM NORTHEY

Mr. Northey operates Innovative Farms, an 800-acre corn and soybean farm near Spirit Lake, Iowa.. For several years he has used global positioning systems to create yield maps and has ridge-tilled his farm since the early 1990s. A native of Iowa, Mr. Northey earned his undergraduate degree from Iowa State University. He has been active in his county farm bureau and the National Corn Growers Association, where he served as president from 1995 to 1996 and was chairman of several committees. Mr. Northey was appointed to the Commission in 1997. He currently serves as trustee of the Iowa 4-H Foundation, is a member of the Organizing Committee of Community Alliance for Interdependent Agriculture, a member of the Advisory Committee for the Keystone Foundation's Project, Trends in Agriculture, serves on the Wallace Institute Project

Advisory Committee, is a member of the President's Council for Food, Land, and People, and has also been elected to his county's Soil and Water Conservation Committee.

RALPH PAIGE

Ralph Paige has worked for the Federation of Southern Cooperatives/Land Assistance Fund (Federation/LAF) for 26 years. For the last 13 years, he has been the executive director of this unique cooperative development organization serving black family farmers and low-income families across the rural South. A native of LaGrange, Georgia, Mr. Paige received his B.A. degree in Education in 1967 from Fort Valley State College in Fort Valley, Georgia. He did graduate studies in Education at the University of North Carolina at Chapel Hill. After a few years of teaching and coaching in Troop County, he joined the staff of the Federation/LAF. Mr. Paige started out working as a field organizer developing cooperatives among family farmers and rural people in Georgia and throughout the South, which included helping secure new public and private resources to support cooperative development. In the mid-1970s, Mr. Paige was director of the Federation's Business Development Office and from 1977 to 1981, he was director of the Federation's VISTA project involving more than 100 volunteers at 60 cooperative and credit union sites. He then became the national field director of the Federation/LAF. In 1985, Mr. Paige became the Federation/LAF executive director. Under his direction, the Federation/LAF has received numerous awards including the Martin Luther King, Jr., Humanitarian Award and a United Nations award recognizing the Federation/LAF for its "significant contribution of adequate shelter to the poorer segments of the community". He has also received a number of awards and nominations for his work in the cooperative movement. Mr. Paige was appointed to the Commission in 1997 and is also a member of numerous local, state, and national boards.

BOB STALLMAN

Bob Stallman was elected the 11th President of the American Farm Bureau Federation in January 2000. Previously, he served as Texas Farm Bureau president after being elected in December 1993. He was elected to the American Farm Bureau Federation (AFBF) board of directors in January 1994 and currently serves on the AFBF International Trade Advisory Committee. A native of Colorado County, Texas, Mr. Stallman is a third-generation rice farmer who began farming in 1975. He received a B.A. degree with honors from the University of Texas in 1974. He was a member of the board of directors of the Columbus, Texas, ISD for six years, and also served as president and vice president. He was selected as Man of the Year in Agriculture by the Columbus Rotary Club in 1986. In 1994, he served on the National Center for Food and Agricultural Policy Working Group on Farm Prices and Income in Washington, D.C. In 1996, he was appointed by Texas Governor George W. Bush to the Citizen's Committee on Property Tax Relief. Mr. Stallman was appointed to the Commission on 21st Century Production Agriculture in 1996. He is a member of the Texas A&M College of Agriculture Development Council, serves on the Texas Agricultural Summit Executive Committee, and was on the executive committee of the Texas Rice Task Force.

LELAND SWENSON

Leland Swenson currently serves as president of the National Farmers Union (NFU), an organization that represents nearly 300,000 farm and ranch family members. A corn, wheat, and soybean farmer from South Dakota, Mr. Swenson was first elected as president in 1988 and has served as the preeminent spokesperson for the interests of family farm agriculture and rural communities throughout the United States and internationally. Before his election as president of NFU, he was president of the South Dakota Farmers Union where he was responsible for the South Dakota Farm Alliance, which brought farm and church groups together to work for better farm and tax policies. He also organized the largest farm rally ever held in South Dakota during the farm crisis of the 1980s. Mr. Swenson grew up in the NFU and is the first NFU president to have completed the organization's youth program and earn the Torchbearer Award, the organization's highest educational honor. Mr. Swenson was appointed to the Commission in 1997. He also serves on the Agricultural Policy Advisory Committee on Trade, on the board of directors of the Consumer Federation of America, is chairman of the board of the National Consumers League, president and chairman of the Farmers Union Foundation, and is on the board of directors of the Farmers Union Insurance Companies.

DON VILLWOCK

Don Villwock is a corn, soybean, wheat, and popcorn producer in southwestern Indiana. A Purdue graduate, he has served as state director of the Agricultural Stabilization and Conservation Service and as state agricultural liaison for Senator Richard Lugar. Mr. Villwock was appointed to the Commission in 1997. In December 1998, he was elected state vice president of the Indiana Farm Bureau and also serves on its board of directors. He has held numerous other local, state, and national leadership roles including involvement as a member of the American Farm Bureau Grain Quality Committee and past national chairman of the Feed Grains Committee and National Young Farmer and Rancher Committee. Mr. Villwock received Purdue's Distinguished Agriculture Alumni Award, the Sagamore of the Wabash Honor, and the Prairie Farmer's Master Farmer Award.

Commission Staff

MECHEL S. PAGGI, PH.D

Dr. Paggi was appointed director of the Commission in May 1999. A native of Beaumont, Texas, he completed his undergraduate degree at the University of Texas at Austin, his master's degree at the University of North Texas, and received a Ph.D. in Agricultural Economics from Texas A & M University in 1981. Dr. Paggi then served as assistant professor and extension economist at Texas A & M, working in international trade and transportation. In 1988, he joined the American Farm Bureau as a senior economist in international trade. Dr. Paggi moved to Rome, Italy, in 1995 where he was employed by the United Nations Food and Agricultural Organization. There, he was responsible for trade and environmental policy issues related to tropical and horticultural products, raw materials, and fibers. For the past year, Dr. Paggi has served the USDA's Cooperative State Research, Extension, and Education Service, Economic and Community Systems as national program leader for natural resource economics. Dr. Paggi has received numerous awards for his contributions to agricultural policy including the American Agricultural Economics Association's Distinguished Extension Group Program Award and the Quality of Communications Award in 1983 and 1987, respectively. In 1987, the Texas Agricultural Extension Service honored him with a Superior Service Award.

MATTHEW A. HOWE

Mr. Howe joined the Commission staff as assistant director in May 2000. He was born and raised outside of Manhattan, Kansas, on a wheat, sorghum, and soybean farm. His family has farmed in the Riley County area for five generations. Mr. Howe attended Kansas State University where he received a B.S. in Agronomy and an M.S. in Agricultural Economics. He has previously worked as a farm laborer, a veterinary assistant, a crop inspector, and as a graduate research assistant.

TIMOTHY M. PETERS

Mr. Peters served as assistant director of the Commission from January 1999 to March 2000. A native of Danforth, Illinois, he grew up on a corn, soybean, and hog farm that his family still operates. He received his undergraduate degree in Agricultural Education from the University of Illinois, then earned a second undergraduate degree in Agricultural Economics from Kansas State University where he also completed research on the 1996 farm bill. Prior to joining the Commission, Mr. Peters worked for Congressman Jerry Moran of Kansas as a staff assistant. Currently, he is a legislative assistant for Congressman Robin Hayes of North Carolina.

Acknowledgements

The Commission extends special thanks to United States Department of Agriculture (USDA) Secretary Dan Glickman; Keith Kelley, administrator of the Farm Service Agency-USDA and his staff; Chief Economist Keith Collins including his staff, Joe Glauber, Carol Goodloe, Larry Salathe, Ginny Taylor, and Shirley Brown; and the Congressional Research Service for their valuable assistance in support of the Commission's effort. The Commission would also like to thank the staff of the Food and Agricultural Policy Research Institute at the University of Missouri, Texas A & M, and the Economic Research Service of the USDA for their invaluable analytical economic research. The Commission also extends its thanks to the various state departments' of agriculture, the many commodity groups, and countless individuals who helped to facilitate the public listening sessions held by the Commission across the country; as well as to the many roundtable discussion participants and open-mike speakers at the six public listening sessions.[1]

In addition, the Commission thanks the following people for their active participation in our meetings:

February 1998

Secretary Dan Glickman - United States Department of Agriculture
Keith Kelly, Administrator - Farm Service Agency, USDA
Tom Lederer, Economic Policy Analyst - Farm Service Agency
Senator Pat Roberts - Kansas

July 1998

Richard Rominger, Deputy Secretary - USDA
Ralph Chite, Specialist in Agricultural Policy - Congressional Research Service
Charles Hanrahan, Specialist in Agricultural Policy - Congressional Research Service
Jean Jones, Specialist in Agricultural Policy - Congressional Research Service
Remy Jurenus, Specialist in Agricultural Policy - Congressional Research Service
Jean Rawson, Specialist in Agricultural Policy - Congressional Research Service
Jack Taylor, Specialist in Tax Policy - Congressional Research Service
Jasper Womach, Specialist in Agricultural Policy - Congressional Research Service
Jeff Zinn - Specialist in Natural Resources Policy - Congressional Research Service

1. A list of the roundtable discussion participants is at the end of the Appendix to this report.

May 1999

Ken Ackerman, Administrator - Risk Management Agency, USDA
Bruce Babcock, Director - Center for Agricultural and Rural Development, Iowa State University
Art Barnaby, Agricultural Economics and Extension - Kansas State University
Carol Brookins, Chairman and CEO - World Perspectives, Inc.
Keith Coble, Agricultural Economist - Mississippi State University
Gregg Doud, World Perspectives, Inc.
Mark Drabenstott, Vice President and Director, Center for the Study of Rural America - Federal Reserve Bank, Kansas City
Gene Gantz - Rain & Hail, L.L.C.
Ruth Gerdes, Producer, Insurance Agent - Auburn Agency
Joy Harwood, Chief - Field Crops Branch, Economic Research Service, USDA
Stephanie Mercier, Economist - Senator Tom Harkin
Bill O'Conner, Majority Staff Director - House Agriculture Committee
Bev Paul, Legislative Assistant - Senator Robert Kerrey

John Riley, Minority Consultant - Subcommittee on Risk Management, House Agriculture Committee
Mike Seyfert, Legislative Assistant - Senator Pat Roberts

July 1999

Dr. Michael Boehlje, Professor - Purdue University
Charles Hassebrook, Program Director - Center for Rural Affairs

November 1999

Mike Barnes, Manager - Hapeville Farmers Market, Georgia
Alfonzo Drain, Acting Deputy Director for Small Farms - Office of the Chief Economist, USDA
Dr. Fred Harrison, Professor - Fort Valley State University
Charles Hughes, Producer - Georgia
Tommy Irvin, Commissioner - Georgia Department of Agriculture
Lynmore James, State Representative - Georgia
Warren James, Producer - Georgia
Jim Shira, Producer - Georgia
Dr. Bob Taylor, Professor - Auburn University

January 2000

Lynn Daft, Executive Vice President - Promar International
Dr. Mark Edelman, Professor - Iowa State University
Randy Green, Senior Government Relations Representative - McLeod, Watkinson & Miller Law Firm
Dr. Neil Hamilton, Professor - Drake University Law Center
Dr. David Orden, Professor - Virginia Tech University
Kathy Ozer, Executive Director - National Family Farm Coalition
Dr. Robert Paarlberg, Professor - Wellesley College and Harvard University

Darrell Ray, Director - Agricultural Policy Analysis Center, University of Tennessee
Dr. Luther Tweeten, Professor - Ohio State University
Ann Veneman, Partner - Nossaman, Gunther, Knox & Elliot Law Firm

March 2000

Mike Gifford, Former Special Trade Policy Advisor - Canadian Ministry of Agriculture
Virginia Grevelle, Minister Counsel for Agriculture - Australian Embassy, Washington, D.C.
Tassos Haniotis, Agricultural Counselor - European Union, Delegation of the European Commission
Jim Murphy, Assistant United States Trade Representative (USTR) for Agricultural Affairs - USTR
Dr. Andres Rosenzweig Pichardo, Director General of Agricultural Sector Studies - Mexican Agricultural Ministry, Mexico
Dr. Bob Thompson, Director of Rural Development - World Bank
Yoichi Watanabe, First Secretary - Ministry of Agriculture, Forestry and Fisheries, Embassy of Japan, Washington, D.C.

June 2000

Dr. James Richardson, Professor - Texas A&M University, Agricultural Food and Policy Center
Wayne S. Smith, Senior Fellow - Center for International Policy

August 2000

Gary Adams, Research Assistant Professor - FAPRI, University of Missouri
Dr. Ed Smith, Professor - Texas A&M University, Agricultural Food and Policy Center
Dr. Bob Young, Co-Director - FAPRI, University of Missouri

Executive Summary

The relationship between government and production agriculture has existed throughout the history of the United States. Farm income support and conservation programs have long been a significant part of U.S. farm policy. In recent decades, issues such as risk management, international trade of agricultural products, and the needs of small and limited-resource farms have become an increasingly significant part of U.S. agricultural policy.

Broadly defined, the food and fiber sector accounts for around 15 percent of the total annual Gross Domestic Product of the U.S. Over time, the sector has benefited from public support in the form of federally funded programs and policies to enhance research and education, resource conservation and market development, and to help stabilize producer prices and incomes.

Support for U.S. agriculture has been sustained, in large part, because of the recognition that production agriculture is an inherently volatile industry. The source of this volatility is twofold. First, the demand for agricultural production is highly price inelastic. When prices for agriculture commodities decline, the quantity of agricultural products purchased does not increase greatly. In addition, the supply of agricultural products is, at least in the short run, also highly price inelastic. As farm prices decline, producers, faced with the relatively fixed land and machinery resources, may not be able to cut back on overall production in the short run. Producers may, however, change the crop mix overtime, and in the long run, gradual adjustments in quantities supplied or demanded occur. As a result, small changes in the demand for agricultural products and/or the supply of products lead to large swings in commodity prices and hence, farm incomes.

Estimates for 2000 put national net farm cash income at 1.1 percent above 1999. The higher income was the result of stronger prices for livestock coupled with record government support. Cash receipts for food, feed, and oilseed crops remained low in 2000. Overall land prices have risen steadily through 1997, and continue to edge up since then. Low prices, fueled by large supplies and weak exports, prompted Congress to enact emergency relief for the third consecutive year in 2000. In the absence of this assistance, net cash income in 2000 would have declined about 11.4 percent from 1998 and 17.7 percent from 1996.

Given the importance of agriculture to the general economy, the inherent volatility of the sector, its reliance on markets that transcend national boundaries, and the inability of individual producers to have an impact on the overall forces of supply and demand, the federal government will likely remain involved in activities that directly affect the marketplace for agricultural products and the economic well-being of producers.

The Commission on 21st Century Production Agriculture was charged, in part, with identifying the appropriate role of the federal government in support of production agriculture after 2002. In addition, the Commission was to develop specific recommendations for legislation to facilitate that role. To accomplish this task, the

Commission benefited from input from many sources including testimony by expert witnesses and stakeholders, public comments, and research and analysis provided by staff members.

The Commission held public listening sessions in Fresno, California; Spokane, Washington; Denver, Colorado; Montgomery, Alabama; Chicago, Illinois; and Scranton, Pennsylvania. Additional input was provided by public comments submitted directly to the commissioners and by e-mail to the Commission's web site. Over the course of the Commission's tenure, 14 meetings were held with more than 60 expert witnesses providing input on the various aspects of each major issue area. In addition, staff developed policy briefing papers, quantitative analyses of policy options, and policy decision matrices to provide additional reference background and tools for analysis for the commissioners.[2]

The culmination of these efforts led to the recommendations contained in this report. Several sections of this report contain minority views that represent alternative recommendations supported by one or more of the commissioners. The minority views are presented in the full report.

Summary of Recommendations and Suggestions

The Commission suggests the following recommendations for consideration in constructing future agriculture policy:

I. Farm Policy Goals

The Commission provides four broad goals for the development of agricultural policy. These goals evolved from testimony given before the Commission and from discussion regarding previous farm policies.

- Production of an abundant supply of high-quality agricultural products at reasonable prices
- Maintenance of a prosperous and productive economic climate for the farmer producers
- Maintenance of the family farm organization as a dominant part of the production system
- Realization of a high quality of life for all individuals living in rural areas.

2. The policy background reports and decision matrices are available in the Commission on 21st Century Production Agriculture, Final Report, Volume II.

II. Appropriate Role for Government in Production Agriculture

The Commission defined the appropriate role of the federal government in support of production agriculture as one that will:

- Ensure a competitive agricultural economy through monitoring of concentration, enforcement of antitrust laws and related regulatory authority, ensuring transparency of market behavior, including contracting.

- Develop policies and programs that enhance the competitiveness of U.S. agricultural products, reduce trade barriers, open markets, and enhance the ability of producers to maximize value-added opportunities.

- Base all policy on sound science and insist that foreign competitors do likewise.

- Promote and enhance food safety and a clean environment.

- Promote and enhance animal and plant health and safety.

- Provide support for agricultural research and education.

- Enhance the development and use of risk-management tools.

- Develop and fund programs that meet the special needs of small and limited-resource farmers.

- Provide an effective and adequate income safety net for farmers with minimal market distortion.

III. Income Safety Net

Many participants and observers in the agricultural community have identified the need to provide a flexible safety net for supporting producer income in times of adverse economic conditions. The persistence of very low commodity prices has rendered existing farm policy instruments inadequate to address the level of distress experienced over the last few years. As a result, the Congress has had to rely on emergency measures to provide additional support. The Commission has established a set of policies that it believes will prevent the need for continued reliance on emergency measures and provide the flexibility necessary to address unforeseen changes in future market conditions while continuing to provide a solid foundation of support for production agriculture.

- The Commission recommends 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. Specifically, the Commission recommends a program referred to as a Supplemental

Income Support (SIS). As envisioned, the SIS program would provide supplemental payments to producers 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, the Commission believes exempt from current commitments on World Trade Organization (WTO) Aggregate Measure of Support (AMS) expenditures. While the program suggested is expected to apply to major program crops (wheat, feed grains, cotton, rice, and oilseeds), the program could be extended to encompass other commodities.

- The Commission recommends retaining 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. The Commission also recommends removing limitations on all government payments to producers.

IV. Risk Management

Producers have an array of tools at their disposal with which to manage risk. The Commission considered two categories of programs to enhance producers' ability to manage their business risks: insurance programs and savings account programs.

- The Commission recommends that a study be conducted to examine the possibility of movement 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.

- The Commission recommends the establishment of 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.

V. Conservation Programs

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.

VI. Agricultural Trade Policy

U.S. producers face challenges and opportunities in agricultural trade. A unified approach during international trade negotiations provides U.S. agriculture with the strongest position to achieve increased market opportunities for producers and favorable resolution of trade conflicts.

- 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.

VII. Individual Commodity Policies

Dairy, sugar, peanuts, and tobacco are commodities that have evolved into specific and unique agricultural programs. In reviewing each of these commodities' programs in detail, the Commission has identified areas of concern that will have an impact on the economic well-being of the producers of these commodities. In an effort to provide direction for inquiry, the Commission has outlined a set of policy options for each commodity that it believes should be reviewed, and urges participants in each industry to work together to develop solutions that will provide a prosperous future for their respective commodities.

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3. Proposal for Comprehensive Long Term Agricultural Trade Reform: A Submission from the United States to the WTO. *A summary of this proposal is in the Appendix of this report.*

Dairy

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
- International market opportunities and challenges.

Sugar

The Commission believes that market conditions, in combination with existing international commitments, create the need for serious consideration of alternatives to the current sugar program. It is the view of the Commission that 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.

Peanuts

The Commission emphasizes that discussions regarding changes to current policy for peanuts recognize the regional importance of peanuts to specific areas and the potential negative impacts on small landholders. The Commission recommends examining the following options as potential modifications to the existing peanut program:

- Phased reduction of the quota system, with compensation to existing quota holders
- Allow for movement of quota across state boundaries
- Subsidies to manufacturers to stimulate purchase of domestically grown peanuts (similar to the Cotton Step 2 program)

- Marketing loan for peanuts and a direct-payment program for producers of quota peanuts.

Tobacco

As with peanuts, the Commission emphasizes that modifications to the current tobacco program recognize the importance of the regional impacts of the existing tobacco program. The options to the existing program that the Commission feels should be examined include the following or some combination thereof:

- Increasing transferability of quota across county lines and/or state lines

- A buyout program designed to phase out the quota program

- A marketing loan for tobacco with a view to increased export competitiveness.

VIII. Small and Limited-Resource Farm Policy

The Commission recognizes the importance and value of the small family farm in production agriculture and rural communities. The Commission further recognizes the significant impact that government policy has on the economic condition of small family farms.

- The Commission believes that the USDA Advisory Committee on Small Farms, which specializes in small farms issues, is well positioned to advise lawmakers on policy matters and should be the lead policy development group in this issue area.

- Further, the Commission recommends that the work of the Small Farms Advisory Committee become a part of the U.S. Department of Agriculture by congressional authority, providing appropriate staff and appropriations.

- The Commission also 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 and by legislators and policymakers (see Small and Limited-Resource Farm Issues, page 62).

Introduction

Agriculture is a major positive component in the United States economy. The net value added to the national economy by the agricultural sector through the production of goods and services averaged about $90 billion annually during the last five years. Jobs in agriculture and related input and marketing industries account for about 18 percent of U.S. civilian employment. Overall, the food and fiber sector accounts for more than 15 percent of the total Gross Domestic Product. In addition, the agricultural sector regularly has a positive balance of trade in excess of $11 billion.

Over time, the sector has benefited from public support in the form of federally funded programs and policies to enhance research and education, resource conservation, and market development, and to help stabilize producer prices and incomes. In general, the theme of these programs and policies has been to assure that the nation has an abundant supply of safe food produced in an environmentally responsible manner and available at reasonable prices to the public in a competitive marketplace.

Support for U.S. agriculture has been sustained, in large part, because of the recognition that production agriculture is an inherently volatile industry. The source of this volatility is twofold. First, the demand for agricultural production is highly price inelastic. That is to say, when prices for agricultural commodities decline, the quantity of agricultural products purchased does not increase greatly. In addition, the supply of agricultural products is, at least in the short run, also highly price inelastic. As farm prices decline, producers, faced with relatively fixed land and machinery resources, may not be able to cut back on overall production in the short run. As a result, small changes in the demand for agricultural products and/or the supply of products lead to large swings in commodity prices and, hence, farm incomes. Producers, however, may change the crop mix and in the long run gradual adjustments in quantities supplied and demanded occur.

The forces leading to changes in the demand for, and supply of, agricultural products are for the most part out of the control of individual producers. Agriculture is a biological production process requiring months from planting to harvest for crops and livestock to achieve marketable weights. Over this period, producers are subject to often variable weather patterns and outbreaks of disease that can affect their supply of products dramatically. In an increasingly global market, economic forces such as relative exchange rates can change dramatically between the time producers invest in the production of a commodity and when they bring it to market. In addition, farming and ranching are characterized by a large number of producers who can do little to influence market prices by reducing their own supplies.

While the majority of agricultural products are sold domestically, an increasing share of producers' output goes to overseas markets. The production of about one out of three acres of U.S. crops goes into export markets. The economic well-being of the producers of food, feed grains, oilseeds, and cotton, for example, is linked directly to being able to compete in international markets. To be competitive requires fair and open markets. There is little that individual producers can do to control international events or fashion

other nations' trade policies. While U.S. producers benefit from export sales, their increased reliance on international markets subjects the industry to yet another set of uncontrollable factors that give rise to volatility.

While the basic underpinnings of the U.S. agricultural economy have not changed much over time, the structure of the industry has been dynamic. When most farm programs began in the early 1930s, the total number of farms in the U.S. was more than six million, and some 25 percent of the population lived on farms. The USDA's National Agricultural Statistics Service (NASS) reports that farm numbers declined from 6.8 million in 1935 to 2.3 million in 1974. Since that time, however, farm numbers have remained relatively stable, with a reported 2.2 million farms in operation today.[4] Today's remaining farms are much larger, averaging 435 acres in 1999, compared with only 155 acres in 1935.

The change in farm structure in the U.S. has been able to occur because the agriculture sector is among the most productive and efficient in the world. The 2.2 million farmers produce enough food and fiber for 283 million Americans and supply a significant proportion of the world's tradable agricultural commodities. Given expectations of continuing advances in technology resulting from both private and public research, a well developed marketing and handling infrastructure, and a superior education and outreach system, U.S. agriculture is poised to continue to be a world leader in the new century.

Given the importance of agriculture to the general economy, the inherent volatility of the sector, its reliance on markets that transcend national boundaries, and the inability of individual producers to have an impact on the overall forces of supply and demand, the federal government will likely remain involved in activities that directly affect the marketplace for agricultural products and the economic well-being of producers. The choices of future agricultural policies will be the most important of these activities.

Other functions of the federal government will also influence the ability of farmers and ranchers to compete. For example, the results of U.S. negotiations with other nations on trade and development issues, macroeconomic policies that affect interest rates and currency exchange rates, and national energy and environmental policy will have significant effects on the agricultural economy. In some cases, actions by the federal government will benefit producers, in other cases they will create new challenges.

The Commission on 21st Century Production Agriculture was established, in part, to identify those activities that define the proper role of the federal government in support of production agriculture. To accomplish this task, the Commission developed a three-part strategy. The first task was to establish a set of goals that federal support to the sector should be designed to accomplish. Next, the Commission defined the role the federal government should play in helping to achieve those goals. The final step for the Commission was to develop a set of recommendations for federal policies and programs that would support the overall goals for the sector and were consistent with the perceived

4. A farm is defined as any establishment from which $1,000 or more of agricultural products were sold or could normally be sold during the year. USDA, National Agricultural Statistical Service, "Agricultural Statistics 2000".

role for government. Using this strategy, the Commission developed recommendations that, if enacted, could enhance U.S. producers' ability to continue in their role as world leaders in agriculture and prosper in the future.

Goals of Agricultural Policy and the Role of the Government

In the United States, the idea that government has a role to play in support of production agriculture dates back to George Washington. In his annual message to Congress in 1796, President Washington suggested that government support for agriculture was of primary importance to the national welfare.[5] The goals of that government role have been debated at length during the deliberations surrounding development of each farm bill in recent memory. By and large, there has been agreement on the need for some government involvement in agriculture and on the basic goals that involvement was meant to foster. What has not been subject to general agreement are the appropriate government policy interventions to achieve those goals.

The Commission reviewed numerous policy goal statements taken from testimony and reports surrounding previous farm bills and from assorted conferences and symposia. In most discussions, the goals for general farm policy focused on the role of the agriculture sector in providing safe food in abundant supply, produced in a competitive marketplace, and at reasonable prices. In this same spirit, the Commission adopted the following four broad goals for farm policy, based on a summary provided by Willard Cochrane.[6]

- Production of an abundant supply of high-quality agricultural products at reasonable prices
- Maintenance of a prosperous and productive economic climate for the farmer producers
- Maintenance of the family farm organization as a dominant part of the production system
- Realization of a high quality of life for all individuals living in rural areas.

The Commission also concluded that, within the context of these broad goals, farm policy in the 21st century must be designed with a view toward the globalization of agriculture. Programs and policies must past the litmus test of conformity with international obligations and commitments to be creditable with the larger constituency of consumers and workers in nonagricultural industries. Having established the basic goals that U.S. agricultural policy should be designed to accomplish, the next step was to define the appropriate role of the federal government in providing assistance to production agriculture in pursuit of those goals.

5. Gardner, Bruce L. "The Federal Government's Role in 21st Century Agriculture", January 27, 2000.
6. Cochrane, Willard W. "A Food and Agricultural Policy for the 21st Century", June 21, 1999.

The Role of the Federal Government

The Commission debated the appropriate functions of the federal government in its role of providing support to production agriculture. The focus of the discussion was to establish those areas where a federal role was necessary because of the special characteristics of agricultural production risks and market structure. The Commission members agreed that the federal government's role should be limited to activities that involve issues that transcend state and national boarders or deal with specific problems that were unlikely to be solved through private-sector initiatives. The Commission concluded that the proper role of the federal government should be to pursue policies and programs that were designed to promote the following concepts and/or accomplish the following outcomes:

- Ensure a competitive agricultural economy through monitoring of concentration, enforcement of antitrust laws and related regulatory authority, ensuring transparency of market behavior, including contracting.

- Develop policies and programs that enhance the competitiveness of U.S. agricultural products, reduce trade barriers, open markets, and enhance the ability of producers to maximize value-added opportunities.

- Base all policy on sound science and insist that foreign competitors do likewise.

- Promote and enhance food safety and a clean environment.

- Promote and enhance animal and plant health and safety.

- Provide support for agricultural research and education.

- Enhance the development and use of risk-management tools.

- Develop and fund programs that meet the special needs of small and limited-resource farmers.

- Provide an effective and adequate income safety net for farmers with minimal market distortion.

Having established guidelines for the general goals of farm policy and the appropriate functions for federal government involvement, the Commission then defined a set of issues that needed to be addressed by future farm policy initiatives. To guide them in identifying the areas for consideration, the commissioners relied on input provided in six public meetings held throughout the country in August and September of 1999. Public listening sessions were held in Fresno, California; Spokane, Washington; Denver, Colorado; Montgomery, Alabama; Chicago, Illinois; and Scranton, Pennsylvania. The

commissioners heard testimony from 200 witnesses from 30 states and comments from speakers during the open microphone sessions.

Additional input was provided by public comments submitted directly to the commissioners and by e-mail to the Commission's web site. Combined with the views of the individual commissioners and aided by their interaction with other producers, a set of 15 issues for review was established. The initial list of topics for review consisted of trade, risk management, income safety net, tax policy, conservation, research and education, dairy, peanuts, sugar, tobacco, regulatory policy, industry concentration, small farms issues, animal and plant health and safety, and food safety.

To aid the commissioners in their understanding of the critical issues surrounding each area, a series of informational meetings was held. Over the course of the Commission's tenure, 14 meetings were held with more than 60 expert witnesses providing input on the various aspects of each major issue area. In addition, staff developed policy briefing papers, quantitative analyses of policy options, and policy decision matrices to provide additional reference background and tools for analysis for the commissioners.[7]

The recommendations contained in this report were the result of the process outlined above. The decisions reached by the commissioners were based on input from many sources and in most cases represent a compromise among different views. Within the established guidelines, the Commission attempted to deal with as many issues as possible. In some cases, however, certain subjects required a level of expertise that was beyond the scope of the Commission, while in other cases, the commissioners felt that various groups had established sufficient guidance on subjects and that the limited resources of the Commission were better spent concentrating on different areas. Rather than develop specific recommendations, the Commission decided to provide an outline of those areas of concern that it felt needed to be addressed in each of those particular subject areas.

This report presents the findings of the Commission on each subject matter area and outlines the associated policy recommendations. It outlines the major issues of importance in the debate surrounding areas where the Commission has not provided specific policy recommendations. The report also provides minority views from those commissioners who have a distinctly different recommendation for future programs or policies in one or more issue areas. The Appendix of the report provides an update of the status of American agriculture as of December 2000.

7. The policy background reports and decision matrices are available in The Commission on 21st Century Production Agriculture, Final Report, Volume II.

I. Farm Income Support Policy

Introduction

In the past, most attempts to reform existing farm policy have been dominated by concerns related to current market conditions and short-run expectations about the future.[8] In addition, policies have been formulated in an atmosphere clouded by concerns over the potential level of budgetary outlays resulting from their adoption. For example, prices in 1979 were the second highest in history, exports were at an all-time high, world food supply was tight, and the long-term prospects for price and income for U.S. agriculture in the 1980s looked strong. The 1981 farm bill maintained or increased loan rates and mandated rising target prices based on estimates of modest inflation. The events of the early 1980s turned out to be exactly the opposite. A strong economy and the value of the U.S. dollar increased by 40 percent, a global recession spread, demand slackened, commodity prices fell, as did both the volume and value of U.S. exports. Similar examples can be drawn from experiences in the 1960s and 1970s and most recently following the enactment of the 1996 FAIR Act.

The passage of the 1996 FAIR Act occurred at a time of record or near-record prices for the major commodity crops. The average market price for several major crops in 1996 was $4.30 per bushel for wheat, $2.71 per bushel for corn, $7.35 per bushel for soybeans, $2.34 per hundredweight for sorghum, $9.96 per hundredweight for rice, and $0.69 per pound for upland cotton. These price levels succumbed to international economic events and began their current slide in 1998. Midway through 2000 saw most of these crops at or near historic lows with the average market price of wheat dropping to $2.50 per bushel, corn to $1.70 per bushel, soybeans to $4.25 per bushel, and rice to $5.75 per hundredweight. Cotton declined to approximately $0.60 per pound.

Proposed as a transitory program to gradually lessen the role of government in supporting production agriculture, the FAIR Act was quickly criticized for making payments to producers when prices and incomes were at record levels in 1996 and 1997. The inflexibility of the Agricultural Market Transition Act (AMTA) payment schedule was also criticized beginning in 1998 when commodity prices started to approach historic lows. Congress reacted by supplementing producer incomes with ad hoc emergency spending in addition to scheduled payments in 1998 that by 2000 has resulted in record direct government payments to producers. AMTA payments were increased by 50 percent in 1998 and doubled in 1999 and 2000.

Many participants and observers in the agricultural community have identified the need to provide a flexible safety net for supporting producer income in times of adverse economic conditions. The counter-cyclical income safety net approach provides an alternative to ad hoc emergency spending that has prevailed in a period of budget surpluses, while also maintaining the planting decision flexibility allowed by the 1996 FAIR Act. An increasingly important consideration of current and future agricultural

8. McCalla, Alex F. and Elmer W. Learn. “Public Policies for Food, Agriculture and Resources: Retrospect and Prospect”, National Center for Food and Agricultural Policy, Annual Policy Review, 1985.

policy and programs is fulfillment of the United States' Aggregate Measure of Support (AMS) commitments to the World Trade Organization (WTO).

Counter-Cyclical Safety Net Program

Income-Based Support Proposals

Several supplemental income-support programs were proposed during the 106th session of Congress that would have provided flexible or counter-cyclical payments to producers. The payments of the proposed programs are counter-cyclical in that they provide income support to producers during depressed financial conditions. Two of these supplemental income payment programs were the Supplemental Income Payment (SIP) plan introduced before Congress by Rep. Stenholm and the Supplemental Income Assistance Program (SIAP) presented by the Administration. The SIP plan would have provided eligible producers with marketing assistance payments on a crop-by-crop basis whenever the current year's national gross revenue for each crop dropped below 95 percent of its previous five-year average. Payments under SIP were to be on a per-acre basis. The SIAP would provide payments to producers if projected gross income, including government payments, fell below 92 percent of the preceding five-year average. SIAP payments would have been made on a crop-by-crop basis, based on actual production, and subject to a $30,000 limit (supplemental plus AMTA payments) per producer. Both SIP and SIAP failed to gather sufficient congressional support.

Examination by the Commission of the SIP proposal and the modifications proposed by the Administrations plan revealed a fundamental problem. Both approaches would tie supplemental income support to current prices and production levels. Under the terms of the Uruguay Round Agreement on Agriculture, such programs would likely be classified as "amber" under WTO rules and payments under such programs would count against the U.S. AMS commitment levels. Currently, Production Flexibility Contract (PFC) payments made under the FAIR Act (or AMTA payments) are classified as "green" and do not count against the U.S. AMS commitment.

Consistency with WTO obligations becomes one criterion for any future income safety net policy. For example, total direct payments for fiscal year 2000 are an estimated record high.[9] Consequently, the U.S. AMS for 2000 is likely within several billion dollars of its $19.1 billion limitation. If agricultural markets remain depressed, the ability to provide support to the sector may be constrained by our international obligations if the method for that support is not constructed in such a way as to be classified as "green" under existing WTO rules.

9. Direct payments made on a fiscal year basis may contain payments for two crop years for certain commodities.

Recommendation of the Commission

In an effort to address the need to provide a flexible safety net for agricultural producers in times of depressed market conditions and/or adverse weather events, and consistency with U.S. international obligations, the Commission recommends the continuation of a fixed AMTA payment consistent with existing baseline budget allocations and the adoption of an additional counter-cyclical income support program. Specifically, the Commission recommends a program referred to as Supplemental Income Support (SIS).

Discussion

As envisioned, the SIS program would provide supplemental payments to producers when aggregate program crop (wheat, corn, soybeans, sorghum, rice, upland cotton, oats, and barley) 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 when aggregate income is above the fixed-base reference level. SIS payments would be decoupled from current prices and yields for any specific commodity. SIS payments would be distributed along the same lines as current PFP payments, that is, paid on fixed acreage and yields, and eligibility would be based on a recipient's status as a producer during a fixed reference period. The Commission believes that this construction would address the needs of the sector for flexible income support and at the same time be consistent with the definition of a "green" payment and therefore not subject to discipline under current or future WTO commitments.

The details of such a plan would have to be worked out in congressional debate. Like current PFP payments, decoupled payments based on a historical reference period are not without their shortcomings. Modifications to the basic SIS program could be worked out to minimize these difficulties. Among the major difficult issues that must be addressed are problems associated with localized disasters, a income shortfall in one crop but not others, and support for producers whose commodities are not covered under the SIS program format. Additional concerns include the choice of reference period, the level of compensation (percentage of reference period income), and details defining the eligibility for program payments.

Initial suggestions to consider in specifying the SIS program include an attempt to move the reference income measure from the national level to a regional or crop area basis. In this way the support could still be decoupled from specific crops or crop prices but would be of direct support to specific areas if crop failure or weather-related disasters are isolated to a particular region. In choosing a reference period it may be necessary to consider different fixed-base periods or various forms of moving averages. In the same way, the percentage of compensation may be determined after thorough analysis of alternatives. Other issues, such as using gross crop income versus net cash income as a measure of economic well-being, would be expected to be evaluated in a similar manner.

Non-Recourse Marketing Loan Proposals

The use of loan programs for major commodities has been a continuing component of U.S. farm policy since the 1930s. Currently, marketing assistance loans are in place for wheat, feed grains, rice, cotton, and soybeans. At issue are the proper level of loan rates for individual commodities and/or the relative level of loan rates among commodities.

Marketing assistance loans for the major crops were designed to facilitate orderly marketing by providing short-term financing so that farmers could pay their bills right after harvest and spread their sales over the entire marketing year. However, the persistence of very low commodity prices transformed the loan program into a major vehicle of counter-cyclical farm price support. Marketing loan program benefits, primarily loan deficiency payments (LDP) to farmers amounted to about $6 billion in fiscal year 1999, and will likely exceed $7 billion on 2000 production.[10]

Recommendation of the Commission

The Commission recommends retaining the marketing assistance loan program, including LDPs and Marketing Loan Gains, while adjusting the marketing loan rates to reflect a closer balance between the historical market value of individual crops. The Commission also recommends removing limitations on all government payments to producers.

Discussion

Some members of Congress have proposed removal of the loan caps imposed by the FAIR Act.[11] This would be a change of sizable consequence for farmers and the federal budget. While larger marketing loan benefits would boost farm price supports, they would involve either additional federal spending or reductions in other federal programs.

Critics of removing loan rate caps express concerns that, in addition to increased cost, the market-directed reforms of the FAIR Act would be undermined. A common economic argument against raising loan rates is that farmers could base their production decisions on loan rates rather than market conditions. Land that might shift to more profitable crops based on market prices and relative production costs could be attracted to the most beneficial loan programs. For example, recent ERS estimates suggest that as a result of marketing loan benefits associated with the soybean loan rate relative to that for wheat and corn, 2000 soybean plantings are one million acres above the level that could be anticipated based only on expected market prices.[12] Changes in acreage planted to particular crops such as soybeans, however, have probably been more responsive to the general planting flexibility provided in the 1996 farm bill, than to relative loan rates.

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10. U.S. Agricultural Update. USDA/ERS, September 29, 2000.
11. Congressional action to uncap loan rates includes: HR-217, Nussle, Leach, and Latham; HR-1299, Berry; HR-1468, Thune, Pomeroy, Minge, and Emerson; and S-30, Daschle.
12. Westcott, Paul C. and C. Edwin Young, "U.S. Farm Program Benefits: Links to Planting Decisions & Agricultural Markets", USDA/ERS, Agricultural Outlook, page 10-13, October, 2000.

In addition, market loan payments and gains are reported as part of the U.S. AMS in the WTO. Raising loan rates would increase the potential that U.S. payments could exceed current AMS commitment levels should prices fall sufficiently low.

Strictly adhering to a formula based on historic market values for setting the relative value of loan rates would be expected to minimize the amount of distortion in producer planting decisions. Such a formula approach was mandated for determining the minimum loan rate for corn and wheat in the 1996 farm bill. However, loan rates for other crops, such as soybeans and rice, were subject to other provisions. The application of a unified approach for all commodities could increase transparency in the process and reduce ambiguity in the outcome of determining farm commodity loan support rates.

The issue of statutory limitations on the amount of government payments a producer may receive has long been a subject of debate. The argument against removal of payment limitations is most often centered on the belief that government payments are supposed to be a mechanism to help farm families stay in business and not be income transfers to the large, and presumably wealthy, farm business enterprises. Those who favor removal of payment limitations point out that the size of an operation is no guarantee of profitability and that government support is intended as a safety net for producers of agricultural commodities, regardless of size. In practice, attempts to limit the amount of government payments to individual farm enterprises are ineffective, given rules that allow for participation in multiple entities and the ability to legally structure businesses into units of eligible size. Removal of these constraints could further streamline existing farm programs and eliminate the unnecessary burden of paperwork associated with compliance for the vast majority of producers with what are effectively nonbinding regulations for a limited few.

Conclusion

The SIS income safety net program would provide producers of program commodities with counter-cyclical income support in periods of adverse market conditions. The SIS program also replaces the need for annual ad hoc emergency payments while maintaining producer flexibility in planting decisions. Further, the SIS program may comply with our international commitments by supporting producer incomes instead of commodity prices, in addition to being decoupled from production and planting decisions by not being based on current production and price of a commodity and being paid on fixed acreage and yield.

Proposals by groups that favor changes to the existing loan rate program advocate either replacing existing programs with higher loan rates or increasing loan rates as a part of an overall farm policy that includes direct income support payments, a farmer-owned grain reserve, and other components.[13] Maintaining the existing marketing loan program structure with a formula based loan rates, in combination with an enhanced supplemental

13. DuPree, Jim. "A New Farm Bill for a New Century", presented to the Commission on 21st Century Production Agriculture, July 2000. North Dakota Farmers Union, "FAIR Act Modifications", handout included with "Federal Farm & Trade Policy, Myths & Realities 2000", June 2000.

income support program, provides an alternative policy package that reduces potential market distortion, conforms to international commitments, and increases government outlays only when warranted by adverse market conditions.

A marketing loan and SIS-type income safety net program would not, by itself, constitute sufficient support for U.S. agriculture. Other programs are needed to provide assistance to producers of other crops and livestock, to help farmers and ranchers better manage risk, to enhance the use of conservation practices, and to facilitate the sales of agricultural products in domestic and foreign markets.

Minority View
Commission on 21st Century Production Agriculture
Farm Income Support Policy
Leland Swenson

Background

More than four years ago, Congress passed the Federal Agricultural Improvement and Reform Act of 1996 (FAIR Act), dubbed Freedom to Farm by its proponents. The legislation was approved during a unique period in agriculture characterized by continued pressure on federal agricultural spending, improved commodity price levels, and expanded export earnings. In addition, the legislation fulfilled in part the desire of some to unilaterally reduce or curtail the public role in U.S. production agriculture with little regard or understanding of the future consequences of such action if the conditions present in 1996 changed.

The FAIR Act, with declining, decoupled payments as its centerpiece, represented reform to the extent that it severed the tie between agricultural policy and commodity specific programs. It is increasingly apparent that the legislation has neither represented an improvement in the short- or long-term economic stability of agricultural producers and rural communities, nor created the broad, market-based environment of opportunity for farmers and ranchers that the bill's advocates promised.

Freedom to Farm proponents assumed and were committed to the proposition that: 1) world population and income growth would create new export demand for U.S. farm commodities; 2) improved risk-management programs, such as crop insurance, could replace other economic safety net programs; 3) reduced government regulation would increase production efficiency by lowering operating costs; 4) a combination of marketing loans set at levels well below the cost of production and fixed, decoupled producer payments would ensure adequate farm income levels to allow the transition to a market-oriented agriculture system; and 5) reductions in our own production-based producer safety net would force others, primarily our export competitors, to make market-dictated production adjustments.

Historically, as well as in the context of our most recent experience, none of these assumptions has merit, and there is little to suggest that the future will provide new evidence, beyond simple rhetoric, of their validity.

Since passage of the FAIR Act: 1) the optimistic forecasts for expanded agricultural trade have been wrong; 2) risk-management programs have failed to adequately address price and production losses; 3) less regulation has not improved production efficiency or reduced costs; 4) the farm program has reduced economic security for producers; 5) competition for export markets has increased because of the rational behavior of individual producers in response to declining prices and incomes; and 6) reduced viability of family farms.

1. Optimistic Trade Forecasts Wrong

Agriculture and food production is of significant economic, social, and political importance in both industrialized and developing nations. Food self-sufficiency continues to be a critically important goal for most nations. Agricultural trade, therefore, is not currently, and is unlikely to become, a model of free-trade principles regardless of the outcome of trade negotiations that take many years to complete, implement, and interpret.

As important as expanded agricultural trade is to U.S. producers, commercial growth in agricultural export volume and value continues to remain more dependent on the year-to-year domestic production levels of other countries than it does on foreign population, income growth, and commodity price levels.

The growth of U.S. imports of agricultural products that compete directly with our own output has increased by more than $20 billion, or three-fold, since 1979, reducing our positive agricultural trade balance by about 40 percent. Since 1996, our agricultural export levels declined from about $60 billion to a projected $51.5 billion for 2000, while agricultural imports will have increased from $32.6 billion to an expected $39.5 billion in 2001.

Many have suggested that the recent period of poor performance in export sales was caused primarily by a unique event, the Asian economic crisis of the mid-1990s. During the past thirty years, each decade has been characterized by at least one major economic calamity somewhere in the world. There is no evidence to suggest that recovery in Asia will spell the end to such occurrences in the future.

Historically, higher commodity prices attributable to exports generally have occurred during periods when supplies have fallen short of real or perceived consumption needs, and not solely as the result of increased consumer income. For example, contrary to popular myth, U.S. domestic demand, which is little affected by per capita income, continues to provide the largest outlet for our production and has exhibited better and more consistent growth rates than overseas markets.

2. Risk-Management Programs Inadequate

Public and private risk-management programs such as crop insurance and various marketing tools are a necessary component of production agriculture. However, even with greater federal incentives that increased participation in the programs in recent years, the need for additional economic and production loss assistance has not been eliminated or reduced. Recently approved crop insurance legislation provides additional funds to expand and improve these programs; however, there is no evidence to suggest that risk-management tools can adequately replace other properly designed economic safety net components of our agricultural policy. This is particularly true for producers in

those regions of the country that suffer from multiyear weather abnormalities or for farmers whose yields are less than average for their operations, so-called shallow losses that do not trigger insurance indemnities or other payments.

3. Lower Standards Will Not Create Producer Prosperity

Proponents of less government intervention in production agriculture often cite the increased production costs incurred by producers to comply with government regulations, particularly those pertaining to environmental issues. First, there is little evidence to quantify the impact of regulation on the cost of producing agricultural commodities. Second, significant evidence identifies the economic and structural costs to independent producers when regulations governing other sectors on which producers are dependent are reduced or inadequately enforced -- the impact of reduced competition in other agricultural sectors on both producer costs and returns, for example. Third, by its very nature deregulation suggests that a cost in the form of increased risk or actual dollar expenditures will be incurred by another population segment or the population as a whole that is unlikely to receive benefits commensurate with the potential gains from reduced regulation.

Proponents of deregulation suggest that the U.S., for commercial market purposes, should reduce its standards to the lowest common denominator necessary to meet the competition regardless of the practices used. This approach is neither politically achievable, nor is it likely to significantly change the market and nonmarket forces in a competitive global environment. Most likely it will only lead to a downward spiral in global environmental sustainability, the general standard of living, and the efficiencies of open, competitive markets.

4. Producer Economic Security Reduced

Since 1990, the value of farm output has increased by just over 17 percent, while producer expenses have risen by more than 30 percent. Through 1999, net farm income, including direct government payments, has declined each year since the passage of the 1996 farm bill. Excluding direct government payments, the average net farm income for the 1990 to 1995 period exceeds by more than $10 billion the level achieved in 1999 and projected for 2000. This represents nearly a 50 percent reduction in income from farm and ranch operations in five years. During the last two years, the income received by producers from crop and livestock sales has fallen short of covering the cost of production by about $4 billion each year. The impact of these operating losses has been disproportionately borne by field crop producers who generally are the most reliant on export markets to improve their marginal returns.

For the past three years, the federal government has given economic assistance to producers well beyond the levels provided by the 1996 farm bill. Of the nearly $31 billion in additional funds paid out for the 1998 to 2000 production years, nearly 80 percent was directed to offset producer income losses caused by reduced prices. The balance of the assistance was used to provide compensation for weather-related

production losses and to encourage greater participation in the federal crop insurance program. For the current year, the level of market loss income assistance will exceed the transition payments mandated by the Freedom to Farm Act by more than 125 percent.

It is apparent that the level of economic support contained in the original act is totally inadequate. Reliance on annual legislative initiatives to provide additional assistance based on existing program components presents additional management challenges to producers and their creditors while exacerbating the inequities and distortions contained in the act.

5. Trade Competition Increased

Some sources suggest that current policy has effectively insulated U.S. producers from significant production cutbacks caused by the decline in commodity prices while imposing an adjustment burden on other countries, particularly our major export competitors.

Contrary to textbook economic theory and to the extent that they can be influenced by independent producers, agricultural production levels are not very responsive to commodity price levels. The fixed nature of production resources and the lack of viable alternatives for their use lead individual producers to rationally seek maximum production with little regard for commodity prices because they can neither predict nor influence future price levels. Low prices may cause structural changes within the production sector by forcing the exit of individual producers or encouraging the production of other crops or livestock where such diversification is possible; however, those adjustments do not result in significant changes in the aggregate level of resources devoted to agricultural production.

When prices are high, it is to the producer's advantage to seek maximum production to achieve greater profitability. When commodity prices decline, maximum production is required to recover fixed and variable operating costs.

Reduced prices and incomes may force farmers to review alternatives for their operations. In the absence of some form of intervention, however, those resources are more likely to continue in production, potentially by another farm operator, than be idled or shifted to a nonagricultural use. Reduced producer prices and incomes cause personal adjustments to farming operations, not to production.

During 1997/1998, when major field crop prices began to decline precipitously, to the current season, U.S. wheat and corn area declined by 11 percent and 2 percent, respectively, while soybean acreage increased by 4.9 percent. The production changes can be explained fully by the shift of grain acreage to oilseed production, entry into federal conservation reserve programs, and the loss of productive capacity caused by extreme weather. General commodity price levels had no impact on aggregate production, although U.S. farm program policy clearly influenced a shift to greater oilseed production by farmers.

During the same period, our major export competitors increased wheat acreage by 3.2 percent, corn acreage by 2.4 percent, and soybean acreage by 7.8 percent. Not only did farmers in general violate the economic theory, but those who were supposed to bear the brunt of our agricultural policy reform by reducing production actually increased their major crop plantings.

6. Reduced Viability of Family Farms

Three years of supplemental economic assistance appear to have provided economic stability to the production sector if market conditions recover. However, most analysts expect any economic recovery to be a slow process. Small to average-size commercial family farming operations are likely to continue to be vulnerable to the economic crisis as both cash flow and financial equity positions remain marginal or deteriorate further.

It is increasingly apparent that much of the economic assistance, which is based primarily on existing farm bill components, has encouraged planting and market distortions among major program crops because of loan rate and decoupled payment inequities contained in the act. In addition, by basing the assistance on historical production factors, both the largest producers, and some that no longer produce eligible crops, have become the prime beneficiaries of the ad hoc programs. In addition, annual modifications to benefit targeting mechanisms further distort the distribution of available funds in favor of large-scale operators.

Commodity Program Components

The primary goal of economic safety net programs is to provide stability and opportunity to producers over time. Programs must ensure a reasonable level of cash flow and producer income in the short term and the potential for producers to recover their full cost of production plus reasonable profits in the long term to maintain a sustainable, independent family farm production-agriculture structure

Commodity Marketing Loan Rate Program

The commodity marketing loan program provides a production-based, counter-cyclical method to stabilize program crop-producer income while allowing commercial market forces to establish commodity sales transaction values. When established at an adequate level, the commodity marketing loan provides a short-term source of financing, enhances marketing flexibility, and creates an effective, transparent, minimum commodity price/income basis for individual producers. In addition, the loan program provides a valuable level of economic assurance to agricultural financial institutions, rural businesses, and communities.

Current loan rates based on differing derivatives of market prices and the influence of other historical program provisions, such as target prices that are no longer operational,

have distorted production and market signals and eroded the relative equity of the safety net program.

The failure of the existing safety net provisions has resulted in ad hoc supplemental measures to maintain economic stability in the crop production sector. The annual emergency measures have reduced the level of financial crisis in the immediate term; however, they have further exacerbated the level of production and market distortion while increasing economic uncertainty within the sector.

Policy Recommendations -

- Establish marketing loan rates for each commodity using the same methodology, such as a comparable percentage of the cost of production. A minimum percentage of the three-year moving average of USDA's full economic cost-of-production data based on yield per planted acre for each crop would provide a sound and equitable basis for loan rate determination. It would ensure equity among commodities, reduce current cross-commodity production, market, and trade distortions, and reflect the dynamics of productivity, regulatory compliance, and economic factors that affect domestic production economics.
- Review marketing loan repayment rate procedures and consider basing them on a comparable world market price format adjusted to a local price basis. Such a format could help address distribution, competitiveness, and direct or indirect global market factors such as currency valuations and different labor and environmental standards.
- Use cost-of-production commodity marketing loan rate procedures to establish a federal crop insurance market price election option for program and nonprogram commodities.
- Use a procedure based on cost of production to calculate the price support level for dairy producers. This will further the objective of developing consistent and equitable domestic farm programs that provide a safety net based on production economics.
- Provide the Secretary of Agriculture with discretionary authority to establish regulations and make adjustments to the program concerning production history, repayment provisions, beneficial interest requirements, loan maturity extensions, and disaster assistance.

Planting Flexibility

Planting flexibility increased moderately with the passage of the FAIR Act, although planting many substitute field crops within the fruit and vegetable category was discouraged by law to reduce the potential that cross-subsidization would encourage excess production of specialty crops. The conflicting results of direct, decoupled payments for some program crops, marketing loan rate inequities, and a variety of ad hoc programs have distorted the price and income relationship among crops eligible for the planting flexibility provisions, thereby damaging the credibility of the FAIR Act provision most favored by producers.

Policy Recommendations -

- Expand planting flexibility to all crops. Potential cross-subsidization by program benefits will be eliminated if the program crop safety net is based on counter-cyclical, commodity specific provisions.

Targeting

To ensure broad public support for a family farm production-agriculture system and economic safety net for farmers, program benefits will need to be both reasonably limited and targeted in the future. Current payment limitation regulations, however, are complex, may be out of date, and are of questionable effectiveness in meeting the expectations of many who understand the need for domestic farm programs.

Policy Recommendations –

- Develop targeting mechanisms that accommodate current and future realities of the required economic scale of family farm operations.
- Use targeting to reduce the potential that farm programs encourage further concentration in production agriculture than would otherwise occur.
- Develop future policy that will streamline the regulations by implementing a targeting mechanism based on individual or single attribution of program benefits.
- Use a limitation on the level of gross benefits, such as total marketing loan receipts, to address both effective targeting and the repercussions of unstable markets on current payment limitation levels.
- Examine a regional approach to the targeting of benefits that would be equitable and nondistorting while better reflecting local needs.

Inventory Management

Barring production-limiting natural disasters, there is a strong tendency for agricultural production to exceed commercial market demand. The potential for chronic oversupply and resulting low producer prices is caused by a combination of many factors. These include producer response to limited market influence, public food security, production-enhancing/risk-reducing research and development, realistic limitations on demand growth, improved commercial distribution capacity, and unstable global commodity and currency markets.

The FAIR Act eliminated nearly all U.S. inventory and production management policy authorities as being counterproductive to U.S. interests. Policymakers assumed that a more market-oriented policy would force adjustments to excess production by all countries, and expected growth in demand would limit the potential of longer-term overproduction. In addition, many of the real or perceived excesses and inequities of the farmer-owned reserve and acreage-reduction programs of the 1980s reinforced the criticism of past inventory and supply management policies.

Much of the opposition to the supply management programs of the 1980s was the result of a failure to implement in a timely fashion more modest, limited, and effectively managed programs. Experience suggests that once the problems of surplus production become excessive, more Draconian and significantly distorting measures are required to reduce the federal budget exposure associated with unlimited production and to stabilize the production agriculture economy.

Policy Recommendations –

- Expand commercial market opportunities for producers that will result in improved producer market prices.
- Promote increased humanitarian and nutrition assistance both domestically and globally to enhance short- and long-term demand.
- Seek and encourage greater international cooperation in the development and implementation of new foreign assistance and economic development programs such as the proposal for an international school lunch program.
- Provide authority to establish limited, producer-stored reserve programs dedicated to renewable energy production and humanitarian food assistance.
    - Provide counter-cyclical supply reliability and operational stability to specific programs in the event of a production shortfall or rising commodity prices.
    - Remove surplus stocks from the commercial market to produce a positive price response for producers and reduced federal program outlays.
    - Create the opportunity for earned storage income by farmers.
- Restore authority to establish a limited farmer-owned reserve program.
    - Provide earned storage income to participants.
    - Maintain buffer stocks to protect domestic and export market share in the case of a severe production shortfall or surge in demand.
    - Ensure global customers and competitors of our long-term ability to be a reliable supplier.
    - Use as a supplemental producer risk-management component to reduce the effective level of crop loss that must occur before private insurance begins to cover economic losses.
- Authorize a limited, <u>voluntary</u> production management program for the life of the program.
    - Voluntary participation would provide increased marketing loan rates for the balance of program crops that are produced.
    - Require application of appropriate conservation measures to land idled under the program.
    - Guarantee that any reduced acreage is considered planted for future acreage calculations.
    - Require participants to comply with both offsetting and cross-compliance regulations.

- On a commodity specific basis and within established limits, provide authority to reduce marketing loan rates for nonparticipants in the production management program if the stocks-to-use ratio exceeds a specified level.

Conservation

U.S. family farmers and ranchers have consistently demonstrated their ability and desire to implement and apply appropriate stewardship practices to the natural resources under their control when adequate economic returns are available to their operations or when they participate in a variety of conservation incentive programs. Future agriculture policy should seek to balance publicly desired resource management goals and regulations with incentive-based programs that further encourage the application of long-term stewardship principles.

Policy Recommendations –

- Provide broader discretion in establishing the maximum acreage entered in the Conservation Reserve Program and the Wetlands Reserve Program.
- Ensure that eligible but prone-to-erosion farmland and acreage that can contribute to improved water quality, wildlife habitat, etc., are not preempted from participation.
- Limit the potential for whole farm reserve contracts except in instances where all acreage meets the conservation criteria.
- Review and enforce county limits on reserve entry.
- Ensure that compensation rates are comparable to local rental rates.
- Provide authority to create and implement a multiyear land and soil rehabilitation program.
- Ensure that the program goal should be to assist those who have suffered losses caused by recurring pest- or weather-related disasters, giving them the opportunity to rebuild the productivity of their farms and ranches.
- Establish an incentive-based conservation program by providing conservation payments and technical assistance to further encourage the application of locally appropriate conservation practices and technologies that are consistent with crop and livestock production activities on U.S. farms and ranches.
- Provide appropriate incentives and technical assistance to establish and compensate producers for on-farm carbon sequestration and encourage the implementation of locally appropriate, individual strategies consistent with crop and livestock production activities on U.S. farms and ranches. This initiative should promote the development of a commercial market for carbon sequestration credits that is open to participation by producers and/or their cooperatives.

Conclusion

For approximately $2.4 billion in additional outlays, above the level spent on AMTA and MLPs, a counter-cyclical, production-based commodity marketing loan safety net could be established at 80 percent of the economic cost of production. This would provide

greater program equity among crops, target payments to actual producers, and enhance financial security for crop producers without other program modifications.

If proposed authority for inventory management -- voluntary set-aside and reserve programs -- is granted and used, the outlays fall by about $3.4 billion compared to current decoupled payment levels, while the average producer safety net on actual production remains at the 80 percent level of the economic cost of production.

COMMISSION ON 21ST CENTURY PRODUCTION AGRICULTURE
FARM INCOME SUPPORT POLICY

The undersigned members of The Commission on 21st Century Production Agriculture concur with the findings and recommendations contained in the alternative report on the farm income support policy.

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Arkansas

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Minority View
Commission on 21st Century Production Agriculture
Farm Income Support Policy
Additional Comments - John B. Campbell*

Farm policy has been debated, legislated, and damned since 1929. Back then, around 25 percent of our population was engaged in food production. Today, only about one percent of the population grows almost 90 percent of our food. In the 1960s, when President Johnson initiated his War on Poverty, an estimated 31 percent of farm families were poor. By 1990, farm poverty rates had dropped below the nonfarm population. A lot has changed.

Today, we are on the threshold of yet another farm bill debate. However, our selection of tools to fix the imperfections of agriculture is pretty much the same as it was 71 years ago:

- Non-recourse loans to guarantee a politically determined value for a commodity.
- Direct income supports to compensate for the difference between what politics determine farmers of certain crops should earn and what the market says.
- Supply controls and grain reserves to deal with the consequences of subsidizing production or prices above what the market will bear.
- Subsidized risk-management programs such as crop insurance, disaster payments, and low-interest loans to help farmers deal with Mother Nature.

Only about 50 percent of agriculture is affected directly by farm bill cycles. The other 50 percent, comprised mainly of livestock, fruits, and vegetables, have pretty much steered clear of the government. Despite 71 years of market intervention, farmers have made spectacular technological leaps. Productivity growth in agriculture has been better than anywhere else in the world, and better than any other sector of the U.S. economy.

So what is it that we are always trying to fix in these farm bills? Intervention advocates point to:

- Chronic oversupply leading to constantly low prices.
- High risk that comes from reliance on Mother Nature.
- Unfair markets caused by the policy decisions of other countries.
- Unfair markets caused by large businesses that sell to, and buy from, farmers.

Many people believe that those factors make agriculture unique among business occupations. This belief has led to a plethora of programs aimed at lending a hand.

* These additional comments are submitted as personal and do not necessarily reflect the views of the board or management of Ag Processing, Inc.

The 1996 farm bill was supposed to be different. Building on the market-oriented reforms of the 1985 and 1990 bills, Freedom to Farm (F2F) was hoped to once and for all transition eight program crops and dairy to much more minimalist programs. For the first time, Congress eliminated programs including those for wool, mohair, and honey. The mood was positive in agriculture. Export demand was good and farm income had been on the rise for almost ten years. Farm groups reluctantly supported the farm policy reform ideas because it looked like farmers would get more government money than if the old programs were continued. And, a seven-year budget deal was struck that saved farmers from painful annual deficit-reduction legislation.

For two years, Freedom to Farm worked like a charm. Prices went up and farmers reaped billions in extra government payments. With cash in hand, they immediately did what they have always done -- reinvested in their business. Bigger, better, faster equipment was purchased. Irrigation systems were installed or updated, computers and global satellite farming systems were adopted. The extra money in 1996 and 1997 didn't get saved for a rainy day. Not only did farmers make operational upgrades, they bid up their own fixed costs by offering more for land.

Temporary windfalls got bid into nearly permanent land expenses. When the bottom started to fall out in 1998, bankers and landowners saw their higher rents and higher equity base potentially evaporating. Universities warned of negative cash flows and the specter of another 1980s-style equity collapse loomed near.

The first signs of trouble appeared in 1998. Asian flu hit and global crops racked up production records. By the time crops came out of the field, prices had dropped to the point that LDPs had started to kick in.

The LDP safety net was not enough. Congress stepped in with special emergency funding to supplement the previously scheduled F2F payments. 1999 and 2000 essentially have been reruns of 1998. The only difference is that Congress approved dramatically more money.

What can we learn from five years of supposed reform peppered with three years of emergency intervention?

Surprisingly, we learned that gross receipts for the eight program crops were $10 billion higher than the previous farm bill. Likewise, net cash income for those crops was $3.6 billion higher over the same period. While the average net cash income over the period would have been the same as the previous farm bill without emergency payments, it didn't make any difference. All of the additional income came from Congress.

Today we are poised for a new farm bill with the expectation that Congress is going to continue defending the high-water mark created in 1996 and 1997. And why not? They did in 1998, 1999, and 2000.

We are still below our internationally agreed spending caps for domestic support programs and a lot of farmers are nervous about low prices. There is a budget surplus and somebody is going to get the money. Why not farmers?

My concern with this philosophy rests on the following grounds:

> The Commission recommendation formalizes, through a supplemental counter- cyclical payment, what Congress did the past three years.
>
> The Supplemental Income Support (SIS) payment formula almost guarantees that land rents and land prices will not give back the jumps made through windfall F2F payments no matter what the market says.
>
> Why is this important?
>
> Commercial farmers must now squeeze more out of each acre at lower variable costs than ever before. Only the biggest, fastest, and smartest will be able to do that. The greater the amount of government support that can be counted on, the quicker those supports get bid into land costs and the faster big farmers gobble up small farmers. Big farmers usually don't set out to cannibalize their neighbors; however, the combination of new labor-saving technology and substantial government supports not only allows more acres to be farmed by one farmer, it virtually assures it.
>
> Would reducing government supports lead to more farmers? Probably not, but it would at least reduce the government incentive to grow bigger.

Two other policy options that we should consider are the following:

1. Eliminate Agricultural Market Transition Act (AMTA) payments.

   The original concept of AMTA payments embodied in the 1985 version of Senators Boschwitz (R-MN) and Boren's (D-OK) decoupling bill was that farmers deserved the upside of markets.

   Under the old counter-cyclical deficiency payment system, the price upside was always taken away by reduced income support. Sometimes the price increase was caused by poor crops. This counter-cyclical system took income support away when farmers needed it most. Likewise, when yields were good, price-based income supports grew even though revenue from markets was up, too.

   What we have learned is that farmers like the price upside of a fixed payment, but they will not accept the downside, even though the average income over a multiyear period may not have declined.

AMTA payments have become a lightning rod for those who cannot accept the idea that fixed payments really are fixed. The old acreage base and yield from which the payments were originally calculated do not reflect changes in cropping patterns and yields. This situation has led to a belief that the payments are not justified.

AMTA payments have also been criticized by those who claim that payments go to people who don't deserve them. Need has never been a criterion for farm program payments, but AMTA payments have come in for unique criticism in this regard.

Either fixed AMTA payments are a good thing or they are not. The idea that we should keep the loan rate/LDP system and the much-maligned AMTA payments and pile on a counter-cyclical payment program is difficult to rationalize. If the farm lobby truly again wants counter-cyclical payments, we should go all the way. Why should we layer on a third safety net system without replacing the one regarded as inadequate?

The Commission tried to balance the desire for a counter-cyclical payment with our World Trade Organization (WTO) "amber" limits for coupled supports. The basket of goods revenue target is an approach designed to try to escape WTO domestic support disciplines while providing a counter-cyclical payment. The approach will run into problems on at least two fronts: first, farmers will no more be satisfied by a payment that reflects a basket of goods than they are with fixed AMTA payments. For example, why would a cotton farmer in Texas who takes a low price for cotton be happy when he doesn't get a payment because of high corn prices? A true basket of goods approach requires that the biggest crops (corn and soybeans) heavily weight the outcome of the counter-cyclical revenue calculation. Producers of smaller crops will prosper or not based on what happens to producers of the bigger crops.

Second, our foreign trading partners will either object to our "hall pass" WTO strategy or respond in kind. While the U.S. argues vigorously for the benefits of freer trade and lower subsidies abroad, we appear to do everything we can to pump up and hide our own domestic programs. We can't expect to have it both ways.

2. Consider crop insurance as a counter-cyclical income support payment.

   Crop insurance subsidies now threaten to distort planting decisions as much any policy that we have had in the past. While the Commission heard much criticism of the re-reformed crop insurance program, we did nothing to recommend change.

It is well documented that high-risk regions show a consistent pattern of receiving more in insurance payments than they pay in premiums. A real insurance program would not long tolerate a consistent and persistent transfer of dollars from low-risk farmers to high-risk farmers. The crop insurance program must be viewed as a subsidy to take risks embedded in a farm policy that is supposedly designed to reduce the risks of farming. What crop insurance does for too many producers is reduce the risks of risky farming in risky areas.

Farmers accept a certain level of risk regardless of crop insurance. In too many cases, the risks reduced by the program are offset by new risks taken. When crop insurance steps in to take risk off the shoulders of producers, their collective action is to eventually push the risk envelope back out where it was before. The problem is that lower risk farmers who want or are forced to purchase insurance pay the price along with taxpayers.

These philosophical issues don't even start to address the basic day-to-day administrative issues of trying to run a program that is neither private nor public. We heard horror stories about the consequences of nobody really being accountable for the performance of the program.

If we are going to have a subsidized national crop insurance program, I believe that farmers could do a better job of designing and administering an actuarially sound crop insurance program. An elected farmer board could take over the program along with the responsibility for making the program regionally fair, deciding what crops to cover, deciding how to deliver the policies, and deciding how the insurance subsidy pie should be carved.

Congress and several administrations have tried repeatedly for 20 years to make crop insurance work. The results are that sometimes it works too well and sometimes it doesn't work well enough. And, it has failed miserably in the goal of preventing Congress from stepping in with ad hoc disaster payment programs.

Perhaps no crop insurance program will dampen the appetite of Congress to ride to the rescue whenever the weather turns bad, but if we really want to prevent ad hoc disaster programs three things must happen:

- Federal crop insurance must be viewed as doing as good a job as possible for farmers who want to insure reasonably risky farming practices and crops. Only farmer control has a chance to achieve this objective.

- An automatic disaster payment program must be legislated to supplement crop insurance.

- Congress must subject ad hoc disaster spending legislation to the same budget rules as other new spending, that is, pay as you go.

Eventually we will have to come up with a new set of reasons to have farm programs because farmers aren't poor any more and farming has changed.

Farmers aren't poor anymore – The average income of farm households in the 1990s exceeded the U.S. average household income. Noncommercial farms get most of their income off the farm and subsidize their rural lifestyle with nonfarm income. Further, income among the smallest one-fifth of farmers has risen faster than the top one-fifth. Between 1950 and 1994 the real income of the smallest one-fifth grew three-and-one-half times while the largest one-tenth of real incomes less than doubled. The income of people on small farms has gained relative to those on large farms. Moreover, according to USDA the average net worth of small farms is more than $250,000 -- several times the average household.

Surprisingly, small farms are financially stronger than the average farm. According to USDA, only about five percent of small farms are marginally solvent, while twice as many larger farms are on the financial edge. Further, on a weighted basis large farms are less dependent on government payments than other farms. The largest one percent of farms received more than five percent of the payments, but produced 25 percent of output. Most of these operations would have been profitable with or without government payments.

Finally, off-farm work allowed many more farmers to stay on the land than was predicted earlier. One 1970 study estimated that there would be only about 600,000 farms today. Instead we have 2.1 million, 1.5 million of which are small.

Farming has changed -- We treat farmers as if they all sell the same crop for the same price and get the same yield at the same cost. Our food system, however, is becoming more specialized and so is risk management. A wheat farmer selling premium-quality wheat gets the same treatment as a feed-quality wheat producer; a corn farmer producing a specialty crop under contract is treated the same way as someone who isn't; a soybean farmer who forwards contracts or uses the futures and options markets to gain or lose relative to the average price of soybeans is treated the same as someone who doesn't. In short, we have an industry that is evolving away from commodities and price-taking to an industry that is more specialized and integrated.

Consider the corn, soybean, or wheat farmers who have invested in value-added processing plants for their crops. Their ultimate return on those bushels committed to the plant has to do with factors far beyond the farm gate. Commercial farming is big business run by sophisticated operators, but our policy is not much different than when people living in poverty, without access to education or opportunity, did most of the farming.

Let's go over the basic situation.

As a group, large farmers have done well and would continue doing well even without income support payments at the levels seen in the past few years. These farmers need continuation of a commodity loan program generally set below market prices (as is now the case). They also need a more reliable and responsible risk-management program to protect against yield and/or quality loss.

Medium-size farmers appear to generate less-than-adequate returns from farm investment, but make up for it with off-farm income. These farmers need help making a transition. They need to become more specialized to get more return per acre, or they need to scale up to capture the returns of the larger farms if they want to generate enough income to support their household with farm profits alone.

Small farmers rarely make money from farming but earn incomes commensurate with other American families because of off-farm income. It is unlikely that our smallest farms can transition to commercial operations. If these farms are to earn profits they will need to be more intensely managed and possibly unified through cooperative marketing or value-added packaging and/or branding.

What is the bottom line? If we really want a new kind of program we have to agree on the objectives.

Can we continue to use income support as an objective? Not for the largest nor the smallest farms. Those groups don't rely on the programs to provide adequate income anyway.

Do we need large farmers in the program to make supply controls work? Not since we figured out that supply control programs are the same as an embargo -- they hurt us more than anybody else.

What about risk management and income stability? We learned that our current crop insurance program is regionally skewed, poorly administered, and completely inadequate at stopping ad hoc disaster legislation. We also learned that farmers push out on the risk balloon at the same rate that the government pushes in. We know from previous research that price-oriented, counter-cyclical payments usually increase revenue instability. It is extremely difficult to make the case that our programs have reduced risk taking or have stabilized income.

Do our support programs address the concerns about market failure caused by concentration? No, they weren't designed to; however, some make the case that the programs actually lead to concentration at the farm level.

What about the unfair trade practices of other countries? Farm programs have little to do with combating unfair trade practices. Broader issues are the battleground on trade, not

domestic support programs. The rationale for a farm program often is grounded on the global fairness argument.

Conclusions

The conclusions I draw from the data and information presented to the Commission stand in stark contrast to the pessimistic outlook presented by so many rural and farming advocates.

As a group, program crop farms have generated positive incomes. Much income has come from the government but technological leaps, high yields, and lower costs have allowed the most aggressive and larger farmers to generate incomes high enough to drive land prices and rent higher.

Does the fact that farming has changed mean that we should convert these programs to means-tested farming welfare payments? No. What we know from our other welfare programs is that there are always unintended adverse consequences. We also know that we could never be happy with where the line is drawn, separating farmers we help from those we don't. The regional differences between farms and crops are too great for a single federal policy.

Three types of programs can be economically and socially defended in the future:

1. Safety net programs for commercial producers that protect against catastrophic markets or weather situations. This would include market-oriented marketing loans and a market-oriented, risk-management program.

2. Social and/or credit programs that help farmers on the edge transition to larger commercial operations, smaller specialty operations, or off-farm employment.

3. Environmental stewardship programs that recognize the growing public concern about how food is produced and how we are taking care of our natural resources.

The Commission did not make specific recommendations along these lines but at some point they are likely to come to the forefront of the policy debate.

COMMISSION ON 21ST CENTURY PRODUCTION AGRICULTURE
FARM INCOME SUPPORT POLICY

The undersigned members of The Commission on 21st Century Production Agriculture concur with the findings and recommendations contained in the alternative report on the farm income support policy.

John Campbell
Nebraska

II. Risk-Management Policy

Introduction

As pointed out in the introduction to this report, production agriculture is inherently risky. Harwood, et al. define sources of risk as production or yield risk, price or market risk, institutional risk (defined as changes in policies or regulations that affect agriculture), human or personal risk, and financial risk (defined as the business's ability to obtain capital).[14] Producers encounter these and other related risks on a daily basis and these risks may affect returns to their business operation. This is of particular concern to producers, given the changing role of the government following the passage of the 1996 Federal Agricultural Improvement and Reform (FAIR) Act. With the elimination of deficiency payments coupled to price and production that were a part of previous farm policy, producers assumed greater risk than before. This change enhanced producers' need for a greater understanding of how to manage risk in production agriculture. For many years, the government administered price and income support programs for producers of major field crops. Up until 1996, these commodity support programs provided direct payments to participating producers when market prices fell below a target price set by the government. This fundamental change in 1996, shifted a greater portion of risk from the government to the producer.

Producers have an array of tools at their disposal with which to manage risk. Planting flexibility gained in the 1996 FAIR Act has been widely used as a tool for managing risk. This provision gives producers the ability to plant their acres into any crop they choose with the exception of fruits and vegetables. Other tools include crop and/or revenue insurance, production contracts, marketing contracts, hedging in futures, futures options contracts, vertical integration, enterprise diversification, outsourcing of labor, leasing inputs such as land and machinery, cash balances, off-farm income, and production and cultural practices. These tools, used separately or in coordination, provide producers with a measure of protection from the uncertainty of prices and yield.

Current programs in place to help producers manage risk include the Federal Crop Insurance Program, the Agricultural Market Transition Act payments legislated in the 1996 FAIR Act, and risk-management education programs administered by the USDA's Risk Management Agency and Cooperative State Research, Extension, and Education System. In addition, the supplemental support provided by Congress in the form of ad hoc disaster relief has provided, ex post, a measure of relief from the effects of market and weather-related risk.

The Commission considered two categories of programs to enhance producers' ability to manage their business risks: insurance programs and savings account programs.

14. Harwood, Joy, et al. "Managing Risk in Farming: Concepts, Research and Analysis", USDA, ERS, AER No. 774, March 1999.

Insurance Program Options

After nearly a year of debate and discussion, the Agricultural Risk Protection Act of 2000 (P.L. 106-224) was signed into law on June 22, 2000. The act is a $15.3-billion package for fiscal years 2001 to 2005 that includes $8.2 billion in funds related to a variety of changes in the current programs and administration of the Federal Crop Insurance Corporation. This legislation reformed the crop/revenue insurance subsidy formula by increasing buy-up incentives for all levels of coverage. Premium subsidies for higher levels of protection increased from the previous range of 55 to 13 percent to 67 to 38 percent, depending on the level of coverage. Effective in the 2001 crop year, P.L. 106-224 sets a floor under a farmer's past and future annual yields so that yields in any year cannot fall below 60 percent of the transition yield for that commodity. This provision ensures that even if a producer has a total crop loss in any year, the yield used for that year to calculate the producer's actual production history will not be lower than 60 percent of the historical average production for the region.

Among other provisions, the bill increased the fee for standard catastrophic risk protection to $100 for 50 to 55 percent coverage. The Agricultural Risk Protection Act of 2000 also provided funding for a substantial investment in risk-management education efforts. The measure also expanded the authority for pilot programs. These pilot programs include coverage for livestock and expansion of the dairy options pilot program into 300 counties.

Recommendation of the Commission

The Commission recommends that a study be conducted to examine the possibility of movement 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 only provide farmers with a voucher to offset the cost of insurance premiums.

Discussion

The Agricultural Risk Protection Act of 2000 provided underinsured producers the incentive, through buy-up premium subsidies to purchase additional coverage. This legislation also provided funding for research into new insurance products, pilot programs, and risk- management education. Several concerns with the current crop insurance system merit attention and should be addressed in the recommended study: the relationship between crop insurance and farm land rental rates, the loss-acceptance level of insurance companies in areas with a high loss ratio, crop insurance working as an incentive to keep marginal lands in production, the provisions of crop insurance's effect on type and amount of crops planted, and the degree and level of fiscal accountability of the private insurance industry.

Additional issues that could be addressed in the study recommended by the Commission include the government's role to provide subsidies for buy-up coverage with private

companies assuming the risk of providing insurance, and whether specialty crops want to be included as part of an insurance program.

Conclusion

Passage of the Agricultural Risk Protection Act of 2000 has resulted in positive changes such as the incentives for increased insurance coverage for producers, the commitment to risk-management education, and support for researching new insurance products. Those changes, however, do not entirely address the moral hazard problem and distortion of planting decisions that currently occur under the existing crop insurance system. The Commission believes that a comprehensive study of the loopholes and problems associated with the current crop insurance system would help to identify areas where modifications may be made.

Savings Account Proposals

Producers often have difficulty maintaining a reserve of cash from one year to the next. In years of positive farm income, producers often make the choice of reducing the portion of their income they return to the federal government in the form of taxes by placing part of their income into a capital investment. As years of positive farm income have been followed by years of negative income, cash flow often becomes an issue, especially if those producers are saddled with payments on the capital items they purchased to offset taxes in the good years.

The events of the last few years have renewed producers' interest in an additional risk-management instrument that would allow them to save a portion of their income in good years to create a reserve fund for use in tougher economic times. Several savings account programs have been proposed that allow producers to shelter some of their income from taxes and withdraw it when it becomes necessary. Such savings accounts could provide an alternative for producers who might otherwise purchase capital assets solely to reduce their tax liability.

Three savings account programs have been discussed as possible additions to the risk-management strategies currently available to producers. They are the Individual Risk Management Account (IRMA), the Farm and Ranch Risk Management account (FARRM), and the Net Income Stabilization Account (NISA).

IRMA would allow producers to deposit up to a maximum of 150 percent of their three-year average gross income as computed from line 11 of their IRS Schedule F. Contributions to an IRMA account would be excluded from taxation, with interest and principal subject to tax upon withdrawal. Withdrawals from an IRMA account could be made only in years where gross income is below 80 percent of the previous three-year average. In lieu of receiving subsidies to purchase crop insurance, producers would receive a government contribution to their IRMA account equal to the rate of the subsidy on the premiums associated with the level of crop insurance they had historically purchased. Producers participating in an IRMA would be allowed to purchase

unsubsidized crop insurance and would be covered by subsidized government catastrophic coverage on gross revenue at 50 percent of the previous three-year average of gross income.

Several versions of FARRM-type accounts have been proposed during the last two sessions of Congress. The development of FARRM accounts was based on individual retirement accounts. Under most proposals, farmers could annually contribute up to 20 percent of pre-tax income into a tax-deferred, interest-bearing account. Interest earned would be taxed annually and the principal would be taxed as ordinary income upon withdrawal. Withdrawals from principal would be at the discretion of the producer, with no price or income trigger. Most proposals of the FARRM-type account have limited the period that money can remain in the account (five years on a first-in, first-out accounting basis). In addition, to be eligible to participate in a FARRM-type account a producer must have reported a positive net farm income and owe federal income tax.

Advocates of a proposed U.S. NISA farm savings program could pattern the system after the Canadian NISA program developed in 1991. The elements of a NISA program vary somewhat from other savings programs in that contributions are taxed in the year in which they are made and tax on interest earned on the principal is deferred until withdrawal. Similar to the IRMA program, withdrawals are allowed only in years where current income falls below a percentage of the previous five-year average of eligible sales. Producers would be able to contribute up to 20 percent of eligible net sales, which are defined as sales of qualifying commodities less purchases of qualifying commodities (seed, plants, livestock, etc.). Qualifying commodities cover most commodities except dairy, poultry, and eggs. Under the program, the government provides a matching contribution to the producer's NISA account equal to the lesser of three percent of eligible net sales or $7,500. Producers are allowed to accumulate up to 150 percent of their previous five-year average eligible net sales in the account. In addition, the government provides a three percent interest rate bonus above that earned on the account.

The NISA contributions are held in two separate accounts. Fund 1 holds all producer deposits and Fund 2 holds government matching contributions and all earned interest. Withdrawals are made first from Fund 2 and then from Fund 1. Withdrawals from Fund 2 are taxable; withdrawals from Fund 1 are not.

Recommendation of the Commission

The Commission on 21st Century Production Agriculture recommends the establishment of a FARRM account without the restriction on how long money may be left in the account. The removal of the time restriction would allow the FARRM account to serve both as a cash reserve for low-income years and an alternative retirement fund for the producer.

Discussion

Any eligible crop or livestock producer can open a FARRM savings account. There is no minimum annual contribution and no maximum account limit. The FARRM savings account program allows a participant to withdraw any amount of money in any year, and producers are allowed to defer taxes on income until it is used. FARRM accounts require no major additional farm program outlays to operate the program. The FAARM savings account is not a direct government payment to producers and it is not a trade-distorting policy. It would presumably be categorized as a green box program consistent with the United States' commitments under the WTO.

Conclusion

The Commission recognizes that the FARRM savings account is not a one-size-fits-all solution to manage every risk in production agriculture. The FARRM account is intended to be one part of a portfolio of options and strategies that gives producers the ability to take personal responsibility in managing a portion of their business risk. The FARRM savings account is a voluntary program available to all producers who qualify. While not every producer may be able to participate in such a program, the Commission believes that it should be an available option and would be beneficial to those producers who would be able to participate.

Income Averaging and Alternative Minimum Taxation

Long-term capital gains can cause producers to incur an AMT liability. AMTs are an extra tax paid in addition to the normal income tax. Large capital gains can severely reduce or even eliminate the AMT exemption amount and thereby reduce the effectiveness of income averaging and other such risk-management tools used by producers. The application of the AMT to income averaging dilutes the purpose of using the income-averaging program as a risk-management tool. Therefore, the Commission supports a viable income-averaging system for producers that is not negated by the effects of the AMT.

III. Conservation and the Environment

Introduction

Historically, the United States Department of Agriculture (USDA) has administered a broad range of programs focused on improving and conserving soil and water resources.[15] Two themes involving farmland productivity dominated the debate from the 1930s until 1985: high levels of soil erosion and providing water to agriculture in quantities and quality that enhance farm production.[16] More recently that role has expanded to include environmental programs designed to address other natural resources associated with agricultural land.

As one of four major new programs enacted by Congress in the conservation title of the 1985 Food Security Act, the Conservation Reserve Program (CRP) greatly increased the federal financial commitment to conservation and targeted federal funds at specific problem areas. The other three, sodbuster (highly erodible land conservation), conservation compliance, and swampbuster (wetland conservation) created a new approach to conservation that halted access to federal farm program benefits for producers who did not meet conservation program requirements. With the exception of swampbuster, these provisions were designed to address excessive soil erosion.

The Food, Agriculture, Conservation, and Trade (FACT) Act of 1990 modified the provisions of the 1985 Act and added conservation provisions to address surface water, ground water, and wetland issues. The CRP was broadened to include cropland that adversely affects water quality and targeted enrollment of one million acres in a Wetland Reserve Program (WRP). The Agricultural Water Quality Protection Program was established to enroll up to ten million acres of land in areas near wellheads, areas inhabited by threatened or endangered species, or where agricultural production poses a threat to the quality of ground and surface water supplies. The Act also initiated the Integrated Farm Management Program of up to five million acres to encourage farmers to plant conserving crops by not losing payments or crop base.

The FAIR Act of 1996 reaffirmed the traditional approaches to federal conservation policy: technical assistance, cost sharing, and education. The provisions included in Title III of the Act amended the conservation compliance, sodbuster, and swampbuster provisions. The amendments provide farmers with more flexibility in meeting the requirements and conditions of these two sets of provisions. The FAIR Act also extended the CRP and WRP, and established several new programs including the Environmental Quality Incentives Program (EQIP), the Wildlife Habitat Incentives Program, the Flood Risk Reduction Program, a Farmland Protection Program, a Conservation Farm Option, and a Conservation of Private Grazing Lands initiative.

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15. Osborn, C. Tim, Carmen Sandretto and Dwight Gadsby. "Conservation and Environmental Programs Overview", AREI, 1996-97, USDA/ERS, July 1997.
16. Zinn, Jeffrey A. "Soil and Water Conservation Issues", CRS/ Resources, Science, and Industry Division, IB96030, January 31, 2000

The most significant conservation programs of the 1996 farm bill are administered by two agencies. The Natural Resources Conservation Service (NRCS) provides technical assistance to producers who wish to plan, install, and maintain conservation practices. It also administers some of the programs that provide cost-sharing assistance to producers as an incentive to practice conservation, and the compliance and wetland protection efforts. The Farm Service Agency (FSA) administers the largest conservation program, the CRP.

In addition to USDA's conservation and environmental policies, regulations from the Environmental Protection Agency (EPA) and other federal agencies affect agriculture. Most notably, the EPA regulates the production and use of pesticides under the Federal Insecticide, Fungicide, Rodenticide Act, as amended by the Food Quality Protection Act, and animal waste discharge from large confined livestock operations under the Clean Water Act. Recently, EPA and USDA have addressed water quality issues for a broader category of animal feeding operations. Most if not all states also regulate the use of pesticides and land-use practices.

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.

Conservation Reserve Options

The Conservation Reserve Program was initiated as part of the 1985 Food Security Act and was extended by the 1990 FACT Act and 1996 FAIR Act. Under the CRP, producers bid to enroll environmentally sensitive lands in the reserve during signup periods, retiring it from production for ten years (or longer under limited circumstances). Successful bidders receive annual rental payments, cost-sharing, and technical assistance to plant conserving vegetation.

Twenty signups for CRP were held between 1986 and 2000. Currently, 31.4 million acres are enrolled out of the maximum 36.4 million acres allotted. USDA estimates that the average erosion rates on enrolled acres are reduced from 21 to less than two tons per acre per year. Retiring these lands also expanded wildlife habitat, enhanced water quality, and restored soil. The annual value of these benefits is estimated to be $3.1 billion with an annual contract cost of $1.742 billion allocated for fiscal year 2001.[17] Every state except Hawaii has land enrolled in CRP; however, the bulk of CRP land is concentrated in the Western Plains states in a band from Texas to North Dakota and Montana.

17. USDA/FSA, The Conservation Reserve Program, PA-1603, Revised June 1999.

Recommendation of the Commission

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.

Discussion

Since 1986, the CRP has significantly reduced the average erosion rates on its enrolled acres. Concern over water quality has become a focus at local and national levels. Buffer strips, filter strips, wetlands, and grass waterways are practices that enhance conservation along riparian areas and improve water quality. Including partial field enrollment with these conservation practices as part of the CRP allows producers to farm productive land near streams and rivers while benefiting the wildlife habitat and water quality of those areas. Partial field enrollment of acres could encourage participation by producers who do not have entire fields that qualify under the current CRP, as well as producers who farm in riparian areas. Enhanced options for enrollment could assist the program in reaching its statutory maximum of 36.4 million acres.

Conservation Cost-Share Options

During the past several decades, Congress has enacted cost-sharing programs that provide financial incentives to induce farmers to participate in conservation efforts. These programs pay a portion of the cost of installing or constructing approved conservation practices.

The largest of these cost-sharing programs had been the Agricultural Conservation Program (ACP). The ACP was established in 1936 as a temporary program in an amendment to the Soil Conservation and Domestic Allotment Act of 1935 and became a legally permanent program in 1962.[18] In 1937, Congress appropriated $440 million in assistance ($5 billion in 1999 U.S. dollars) for the ACP over a two-year period. The ACP paid farmers up to $3,500 per year in cost-share assistance to install approved conservation practices. The FSA administered the ACP until it was replaced in 1996.

The 1996 FAIR Act terminated the ACP and replaced it with EQIP, a mandatory spending program that supports structural, vegetative, and land-management practices. Some have suggested replacing the current EQIP in upcoming legislation with a modified version of the ACP.

EQIP was established to provide a voluntary conservation program for farmers and ranchers faced with threats to soil, water, and other natural resources. Four of USDA's former conservation programs were combined in EQIP: the ACP, the Water Quality

18. Parts of this section are based on "A Time to Choose: Summary Report on the Structure of Agriculture", United States Department of Agriculture. Washington, D.C., January 1981.

Incentives Program, the Great Plains Conservation Program, and the Colorado River Basin Salinity Control Program.

EQIP is designed to address serious natural resource problems in priority areas. Priority areas are generally defined as watersheds, regions, or areas of special environmental sensitivity or having significant soil, water, or related natural resource concerns. All EQIP activities are carried out according to a site-specific conservation plan, with five- to ten-year contracts that provide incentive payments and cost sharing for conservation practices outlined in the site-specific plan. The program's cost sharing may pay up to 75 percent of the costs of certain conservation practices such as grass waterways and filter strips. Incentive payments may be made to encourage a producer to implement one or more land-management practices such as nutrient management, manure management, integrated pest management, irrigation water management, and wildlife habitat management. These payments may be provided for up to three years to encourage producers to carry out management practices that they may not otherwise use without the program incentive.

EQIP eligibility is limited to persons engaged in livestock or agricultural production. Eligible land includes cropland, rangeland, pasture, and forestland. Fifty percent of EQIP's funding is targeted at natural resource concerns relating to livestock. Total cost-share and incentive payments are limited to $10,000 per person per year and $50,000 for the length of the contract. The Commodity Credit Corporation provides the funds for EQIP whose authorized annual budget is $200 million through 2002. The NRCS is the lead agency for implementing EQIP and works with the FSA to set the program's policies, priorities, and guidelines.[19]

Recommendations of the Commission

The Commission recommends continuation of EQIP. Further, the Commission recommends that the program be funded at levels initially authorized in the 1996 FAIR Act, with those funds dedicated to program activities and not used to pay administrative and overhead costs.[20] The Commission also recommends assuring that there be adequate support for NRCS staff to administer a fully funded EQIP.

Discussion

The Commission recognizes that EQIP does not allow participation on as broad a basis as the ACP once did. However, in addition to cost-sharing programs, EQIP, unlike the ACP, also provides producers with incentive payments over several years for adoption of conservation practices. At present, EQIP has limited funds available to service the demand for participation in the limited designated priority areas. While the ACP was a broad program, its environmental benefits may not have been as great as those achieved with current programs. For example, more than half of all ACP-assisted erosion-control

19. Parts are from: *EQIP Fact Sheet - 1996 Farm Bill Conservation Provisions*, NRCS-USDA.
20. The 1996 Act recommended funding at $200 million, the 2001 budget for EQIP is set at $174 million.

practices were installed on lands with low erosion rates.[21] Continuation of an enhanced EQIP with expanded coverage provides another tool for producers in their efforts to adopt effective natural resource-management practices.

Other Issue Options

Air and water quality issues and regulation are a controversial subject in agriculture. In 1997, the EPA revised the National Ambient Air Quality Standards for ground-level ozone and two sizes of particulates. The response of the agricultural community as well as the USDA was to challenge the scientific basis of these revisions. A federal court subsequently ruled that the EPA had exceeded its authority in issuing these regulations. Similarly, the EPA has issued regulations regarding water quality under the auspices of the Clean Water Act. The EPA has faced additional challenges to its regulations by the agricultural community.

In response to global negotiations on climate change and the drafting of the Kyoto Protocol in 1997 that aims to reduce greenhouse gas emissions, agricultural producers are interested in the possible opportunity to contribute to greenhouse gas reductions by taking actions and receiving credits for the sequestration of carbon in the soil and/or trees. The producers could save credits or sell them to others (for example, power companies or manufacturing plants) who wish to offset their own greenhouse emissions. Earning credits for carbon sequestration could provide an additional source of income for producers.

Recommendation of the Commission

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.

Discussion

Promoting the conservation of natural resources is in the best interest of all citizens. The means to achieve environmental and conservation goals are the source of the debate on this issue. A lack of understanding and agreement on many of the scientific principles involved complicates the effort to design appropriate programs and policies to provide

21. A Time to Choose: Summary Report on the Structure of Agriculture, United States Department of Agriculture. Washington, D.C., January 1981.

the desired environmental benefits. The agricultural community has an important role to play in helping achieve many environmental goals. Thorough research is necessary to identify new practices that will help maximize agriculture's contribution to effective natural resource management. In some cases it will be necessary to provide compensation to assist producers in implementing those practices.

Conclusion

The CRP is a program beneficial to the producers who participate and to the public who pays for it. The participating producer receives an annual rental payment and the public benefits from reduced soil erosion, expanded wildlife habitat, and enhanced air, water, and soil quality. Currently, the program is below its statutory maximum participation. Provisions to enroll partial fields, buffer and filter strips, wetlands, and grass waterways have the potential to promote maximum participation with the greatest environmental benefit.

EQIP, fully served by government, can improve environmental quality in problem areas while providing financial assistance to producers who implement conservation practices. Increased participation in EQIP would benefit environmental priority areas and producers alike.

Federal policy should be encouraged to use current conservation and environmental programs and design new programs that provide agricultural producers with economic incentives to adopt practices that achieve measurable environmental benefits that minimize the need for invasive regulatory approaches.

IV. Agricultural Trade Policy

Introduction

The United States is the world's largest single-country exporter of agricultural products. The production of approximately 30 percent of U.S. crop acreage goes into export markets. Down from their peak value of $59.8 billion in 1996, fiscal year 2000 agricultural exports are expected to be valued at $50.5 billion. In addition to declining exports, U.S. farmers and ranchers face increasing competition from imported agricultural products. The U.S. is projected to have imported $38 billion in agricultural products in fiscal year 2000. Agricultural imports in 1999 included about $7.9 billion in noncompetitive products such as coffee, cocoa, and bananas. In contrast to the export market opportunities for U.S. agricultural products, U.S. producers compete with about $29.8 billion worth of imported products such as red meats, dairy products, fruits, vegetables, wine, and malt beverages. As a result, the health of the agricultural sector is highly dependent on developments in international markets and in the policies that govern the trade of agricultural commodities.

The Uruguay Round of multilateral trade negotiations provided new and strengthened rules for the conduct of agricultural trade. The success of U.S. negotiators in the next round of agricultural trade talks and in resolving trade disputes will depend in large part on the support or opposition they receive from domestic producers and their representatives and organizations. Many other trade issues currently confront agricultural interests, as well.

The United States submitted a comprehensive agricultural reform proposal for correcting and preventing restrictions and distortions in world agricultural markets before the World Trade Organization (WTO) in Geneva, Switzerland, in June 2000. The emphasis of the U.S. proposal is to build on the foundation established in the Uruguay Round by accelerating the process of reducing trade distortions while preserving the ability of governments to address agricultural concerns in a nontrade-distorting fashion. The specific elements of the United States' approach entail reforms of all measures that distort agricultural trade including tariffs, tariff-rate quotas, import state trading enterprises, products of new technology, export subsidies, export state trading enterprises, export taxes, export credit programs, domestic supports, and special and differential treatment for developing countries.

Trade Proposals

The Commission focused its discussion on agricultural trade policy on two broad options. The first option was to provide support for the U.S. comprehensive agricultural reform proposal submitted before the WTO. The second option was to support a policy that allowed individual commodity interests to pursue trade policies that further their self-interest in the world markets. Other issues, such as the inclusion of labor and environmental issues in trade negotiations, also were debated.

Recommendations of the Commission

The Commission on 21st Century Production Agriculture endorses the comprehensive U.S. position on trade as tabled in the WTO in June 2000.[22] 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 negotiating authority for the new round of trade talks. Last, it is the view of the Commission that negotiations on trade reform within the WTO are not the appropriate forum for negotiation of environmental and labor issues.

Discussion

By providing a unified front in support of the United States trade reform proposal, U.S. agriculture sends a message to our competitors of a strong resolve to move toward programs and policies that are less trade distorting. If we stand together behind one set of trade policy options it will be more difficult for our competitors to pursue a divide-and-conquer strategy that places individual commodity interests against each other to the detriment of the common good.

The support for comprehensive negotiations is based on the belief that this framework provides maximum flexibility for negotiators to secure a favorable outcome for U.S. agriculture. Traditionally, trade negotiations conclude only when there is agreement on all subjects under discussion. The final agreement at a trade round normally has been a single undertaking covering all areas. This "nothing-is-agreed-until-everything-is-agreed" approach requires that negotiations must be completed in even the most sensitive areas or no agreement will be reached. Opportunities exist under this format for U.S. negotiators to obtain concessions in agriculture in exchange for movement on other issues that would not otherwise be possible in a single-sector negotiation. Obviously, there are concerns that the opposite could occur but the potential for gains is believed to outweigh the risk, especially if U.S. agriculture interests are united in their overall goals for the negotiations.

The granting of trade negotiating authority dates back to 1934 when Congress initially gave the President authority to negotiate mutual tariff reductions with our trading partners. This authority was renewed repeatedly over the years and has only recently been allowed to lapse. To negotiate effectively with our trading partners, they must know that the deal they agree to will be the one that is voted on in Congress and not transformed by amendment at some later date. This certainty can only come about if our trading partners know that when the President negotiates a trade agreement it is with the confidence that the Congress will stand behind it. As such, the granting of trade negotiating authority should be accompanied by the understanding that negotiations are

22. Proposal for Comprehensive Long Term Agricultural Trade Reform: A Submission from the United States to the WTO. *A summary of this proposal is in the Appendix of this report.*

conducted with extensive consultation and oversight by Congress to ensure that the views of their constituents will be reflected in any final agreement.

The WTO agricultural negotiations should first and foremost be to address concerns related to fair competition and public safety in the trade of products between countries. The WTO provides the arena for the discussion of rules of conduct for agricultural trade, the expansion of markets for agricultural products, the easement of trade barriers, reductions in export subsidies and trade-distorting domestic support, disciplines on the operations of state trading enterprises, and science-based rules governing the trade in genetically engineered products.

Disagreements between sovereign nations over the appropriateness of a given process or method of production based on environmental or labor concerns should be the dealt with in forums other than the WTO. For example, the United Nations Environment Program (UNEP) was founded to deal with, and be an advocate of, environmental concerns within the international system. The UNEP makes a particular effort to implement an environmental agenda that is integrated strategically with the goals of economic development and social well-being. The International Labor Organization has worked for the past 75 years to deal with issues of international labor standards and the establishment of universally accepted benchmarks by which the rights and conditions of human beings at work are measured. It would appear that these two institutions should be in the lead in their respective areas, not the WTO.

Conclusion

U.S. producers face challenges and opportunities in agricultural trade. A unified approach during international trade negotiations provides U.S. agriculture with the strongest position to achieve increased market opportunities for producers and favorable resolution of trade conflicts. This approach should include a partnership between the Congress and the executive branch in those negotiations. The focus of U.S. negotiators should be to address those issues that impede the open and fair trade of agricultural products between nations. Issues related to disputes over environment and labor issues should be addressed within international institutions having authority for those unique mission areas.

Minority View
Commission on 21st Century Production Agriculture
Agricultural Trade Policy
Leland Swenson

Background

Agricultural trade is important to U.S. agriculture, as the world's largest single-country exporter. The advocates of free trade in agriculture often overstate the benefits of trade to producers by myopically discussing only one aspect of the market -- exports. To ignore the size and stable growth of the domestic market as well as the rapid increase in imports of competitive agricultural products is a distortion of reality and encourages a false sense of future opportunity that never seems to occur for farmers and ranchers. Greater in-depth analysis needs to be undertaken to determine how and in what proportion each agricultural sector shares in the gains from trade, both export and import, as well as the level of consumer surplus achieved through agricultural trade activities.

As noted, the U.S. is a large agricultural exporter. Although the volume and value of U.S. farm exports has exhibited great variability from year to year, the trend has been about an average 2.5 percent increase in nominal export value per year since 1989. Over the same period, however, the level of competitive imports has increased at an average rate of nearly ten percent per year. In 1979, competitive agricultural imports amounted to about 28 percent of U.S. exports. By 1999, the percentage had increased to nearly 60 percent. Interestingly, the large increase in competitive imports occurred during a period when food transportation and handling technology had reduced the seasonal variation in the supply of most U.S. products to the retail consumer market.

By comparing nominal export sales to the value of U.S. crop and livestock output, trade advocates lead the agricultural community to believe that one acre out of every four, or 25 percent of U.S. agricultural production, currently is shipped overseas. This analysis obviously ignores the value added by other sectors engaged in processing, merchandising, and handling. In addition, it further overstates the importance of exports to farmers by failing to net out the impact of competitive imports that substitute for about 17 percent of total farm and ranch output, reducing the demand and price for domestically produced commodities.

Many suggest that improved export opportunities for U.S. agriculture will occur if and when further agricultural policy reform is approved within the context of multilateral (that is, the WTO) and/or regional trade (that is, NAFTA, FTAA) negotiations that are limited to specific commercial trade interests and issues.

These negotiations are important to producers in establishing more equitable rules to govern international trade in agricultural products. However, the resulting U.S. farm-gate benefits of trade talks are likely to be mixed or inconsequential relative to other issues that affect agricultural trade but are not resolved through the negotiation process.

The Commission focused its discussion on providing recommendations for a comprehensive U.S. negotiating framework that seeks to address the current rules governing agricultural trade.

The alternative framework for trade discussions presented below recognizes that some of the proposals ultimately may be deemed to be outside the scope of multilateral trade negotiations. However, the Commissioners signing the alternative report believe the issues are of such great importance to improving the trade environment that nations must consider these issues within the established negotiating process.

Trade Negotiations

The U.S. position in international agricultural trade negotiations must reflect more than the needs of commercial, multinational processors and merchandisers whose trade objectives may be different or counter to the needs of domestic agricultural producers and consumers. The objective of the U.S. should be to achieve comprehensive trade rule reforms and enhanced international cooperation to accommodate the unique economic, social, and political characteristics of production agriculture.

In contrast to seeking free trade in a world where the conditions necessary to achieve a fair and equitable distribution of the gains from trade are unlikely to exist, the U.S. should pursue a set of enforceable trade rules that will reduce the most blatant trade-distorting practices.

Policy Recommendations

- *Currency valuation and fluctuations*: Exchange rates and currency values have a significant impact on agricultural trade. If the U.S. and others who tie their currency to the dollar are to continue providing leadership ensuring global economic security and stability, the negative results from that responsibility as manifested in policies consciously designed to maintain a relatively high-valued currency must be addressed, as must the results of actions by others to create a competitive trade advantage through exchange rate adjustments. Excessive adjustments of foreign currency values relative to the U.S. dollar, through transparent or less obvious means, result in an implicit export tax on U.S. producers and a nontariff import barrier and effective export subsidy by the nation whose exchange rate is adjusted downward. Nations and international institutions such as the International Monetary Fund should seek to minimize the level and impact of exchange rate fluctuations. Beyond specified adjustment parameters, a nation whose agricultural producers suffer injury due to changes in relative currency values should retain the ability to implement measures to offset the effects of exchange rates through border and export measures and domestic programs.

- *Export subsidies*: Eliminate the use of direct and indirect export subsidies with the exception of bona fide humanitarian and/or economic development assistance. The

use of export subsidies tends to reduce the producer price level of the subsidized commodities and the alternative or substitute products. Export subsidies may also reduce aggregate trade volumes as purchasers take a wait-and-see attitude toward purchase decisions. A reduction in demand, even in the short term, will further reduce producer prices. The primary beneficiaries of export subsidies are merchandisers and processors who receive the subsidies and can then use discounted commodities in conjunction with their market power to drive down prices for other producers, creating a downward price spiral that ultimately affects all producers.

- *Regulatory considerations*: Various regulations applied by sovereign nations have a significant competitive impact on production agriculture. An acknowledged goal of enhanced international trade should be to achieve improved living standards and resource sustainability on a global basis. Trade negotiations should address differing national regulatory regimes and provide an appropriate means by which such regulations can be accounted for within the context of trade agreements or by other mechanisms that are internationally enforceable to all WTO signatories. To the maximum extent possible, environmental, labor, intellectual property, and competition policies and regulations should be harmonized and internationally enforced. Nations should be allowed to provide higher levels of protection, commensurate with the additional costs associated with the regulatory framework, to those who are challenged by the inherent competitive advantage of others with lower production, marketing, and product standards.

- *Market access and trade barriers*: Eliminate nontariff trade barriers such as sanitary and phytosanitary standards not based on scientific principles and risk assessment or to accommodate reasonable consumer nutrition, health, and safety interests, or to address unique situations. To accomplish this, an agreed-on set of scientific principles and risk-assessment procedures must be developed, along with the establishment of an appropriate body to implement, test, and deliver findings based on those principles and procedures. Further, we must maintain national treatment obligations, seek tariff and tariff-rate quota equalization before agreeing to further reductions in U.S. tariffs and access commitments, and allow flexibility to unilaterally address unique situations that potentially cause long-term harm to individual producers or to the industry such as weather conditions or import surges.

- *Transparency*: Nearly all nations engage in some form of direct or indirect support for their agricultural systems. Current international procedures to identify and quantify those measures, such as various subsidy equivalency calculations, in many instances fail to fully account for and attribute agricultural support levels that are used to determine compliance with trade agreement commitments. In addition, the level of concentration within other sectors of agriculture continues to reduce the domestic and international level of competition and price discovery and the ability of producers, consumers, and public policymakers to make sound production, market, and public issue decisions. New efforts, therefore, should be initiated to identify and account for all direct and indirect forms of agricultural support on a global basis. To the maximum achievable, all support programs should be converted to the most

transparent form possible, and the WTO and member nations should be notified of all such forms of support. Finally, nations should implement complementary regulatory approaches that increase commodity market price transparency within both the private and public sectors for agricultural commodities and production inputs.

- *International cooperation*: Many current issues resulting in trade disputes or charges of unfair trade practices can be reconciled through greater international cooperation directed to addressing the supply, demand, and price problems experienced by all producers. Global economic development and improved living standards can be achieved, along with increased short- and long-term demand for agricultural products, if the U.S. and other industrialized nations engaged in a cooperative effort to increase the resources available for such activities rather than criticize and condemn current actions undertaken unilaterally. Further, inventory management programs could effectively help ensure global food security and resource sustainability and improve the returns to all producers while providing long-term consumer benefits if the responsibility for these activities was shared among nations in a spirit of cooperation.

- *Dispute resolution*: The process should be streamlined and expedited and should ensure that any relief would provide benefits to the producers and/or agricultural sectors that were harmed by an unfair trade practice. Procedures should be established to provide immediate relief or compensation after a preliminary ruling pending final action. Nations should be allowed to take unilateral action commensurate with the full costs associated with a violation through both trade-related actions as well as domestic adjustment/assistance programs.

COMMISSION ON 21ST CENTURY PRODUCTION AGRICULTURE
AGRICULTURAL TRADE POLICY

The undersigned members of the Commission on 21st Century Production Agriculture concur with the findings and recommendations contained in the alternative report on agricultural trade policy.

James O. DuPree
Arkansas

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South Dakota

V. Individual Commodity Policies

Introduction

The Commission identified four commodities as sufficiently unique to warrant separate consideration in examining their existing programs and policies and determining what, if any, recommendations for modification might be appropriate: dairy, peanuts, sugar, and tobacco. Over the years, the producers of these commodities have operated in a market-place governed by specific price and marketing provisions. In addition, the production of these commodities tends to be concentrated in a limited number of areas across the country. Changes in policy that affect the profitability of these commodities will have substantially different regional effects. The Commission concluded that the producers of these commodities and their representatives are better able to address the issues facing these industries and determine how current policy may be adapted to assist them in light of expectations for their future markets.

In reviewing current conditions and trends, however, the Commission has identified areas of concern for the future that will have an impact on the economic well-being of the producers of these commodities. In an effort to provide direction for inquiry, the Commission has outlined a set of policy options for each commodity that should be reviewed and urges the industry to work together to develop solutions that will provide for a prosperous future.

Dairy

The dairy industry in the United States is among the most complex of all agricultural enterprises. The matrix of participants involved in getting milk from the cow to the consumer include milk producers, dairy cooperatives, processors and manufacturers, and the firms that market dairy products. Unlike many commodities, the dairy production process is continuous -- producers harvest their product every day. Milk is extremely perishable and needs sanitary handling and rapid delivery for further processing.

Government policy has played a major role in the pricing and marketing of milk, initially in an attempt to assure consumers a safe and adequate supply of milk and dairy products. Over the years, the variation in regional milk production costs, regional population shifts, changes in technology, and other factors have changed greatly. Dairy policy, however, has remained aligned closely with the programs established in the Agricultural Adjustment Act of 1949. While the 1996 farm bill and subsequent changes in federal policy have altered the structure of support to the dairy industry, additional challenges remain.

Decisions regarding the course of future dairy policy must address at least four issues: federal marketing orders, dairy compacts, federal price support, and international market opportunities and challenges.

The minimum farm price of approximately three-fourths of the nation's fluid milk is regulated under federal milk marketing orders administered by the USDA. Federal milk marketing orders require processors to pay a minimum price for farm milk, depending on how the milk is used. Despite recent changes in pricing differentials and consolidation of the number of marketing order regions from 31 to 11 as required by the 1996 farm bill, the federal milk marketing order system remains a labyrinth. To all but those who make their living in the industry, trying to understand how the price of milk is determined is a challenge. Even given an appreciation that milk has many end uses that result from various levels of processing that produce products with different values, the current system of milk pricing cries out for simplification and increased transparency. Attempts at using the marketing order system to balance supply and demand in various regions is ineffective at best.

California, the largest milk-producing region, has its own milk marketing regulations. The New England States have a temporary authority for a regional dairy compact that allows the region to establish minimum fluid milk prices above the minimum federal level. Other states are considering either joining the Northeast Compact or forming a separate one in the southern regions. Congressional approval is required. The Northeast Compact was scheduled to expire at the same time that federal order reform was implemented. Subsequent legislation, however, extended authority for the Northeast Compact through September 30, 2001.

The dairy price-support program, which authorizes USDA to purchase surplus dairy products in order to support farm milk prices and had been scheduled by the 1996 farm bill for elimination at the end of 1999, was extended for one year in the fiscal years 2000 and 2001 agriculture appropriations bills. Each of these appropriations bills also provided emergency payments to dairy producers in compensation for low farm prices.

Exports of U.S. dairy products also have some federal support. The Dairy Export Incentive Program (DEIP), first authorized by the Food Security Act of 1985 to help U.S. exporters counter subsidized sales by foreign competitors, was extended through fiscal year 2002 for the purpose of market development. Since its inception, the DEIP has awarded exporters more than $800 million in bonuses to subsidize the sale of more than one million tons of various types of dairy products.

Controls on dairy imports also assist U.S. dairy producers by limiting the amount of foreign competition. Under the provisions of the Uruguay Round Agreement, the U.S. replaced import quotas with tariff rate quotas that apply low tariff rates to the imports of specific dairy products up to a certain quantity and higher tariff rates on any amount above quota imports. High-tier tariff rates have been reduced by 15 percent over the six years of the Uruguay Round Agreement (1995 to 2000), while quantities subject to low-tier rates have been increased gradually.

At the present time, the state of the dairy industry calls into question the sustainability of the current system of policies. Productivity in the dairy industry continues to outpace

demand. Dairy output in the U.S. has grown as much in the last two years as during the preceding seven years and further expansion is possible.[23] Advancements in the technology of storing and handling milk have the potential to erode the justification for maintaining regional market advantages for local producers. Combined with an uncertain future regarding continuation of government support programs and the level of export assistance and import restrictions, dairy producers face a challenging future.

Several options have been suggested as alternatives to the current dairy policies. It will be necessary to examine many of these proposals in detail during the upcoming farm bill debate. It is the opinion of the Commission that the following policy options should be among those analyzed: alternative price support mechanisms for dairy including a marketing loan for dairy products; a direct-payment-type program for dairy producers; mandatory supply controls; forward contracting options for dairy producers; extension of dairy compacts beyond the existing regional authority; and insurance options for revenue and gross margin protection.

Peanuts

Peanuts are a regional crop, with most production occurring in three areas. In 1999, the Southeast (Georgia, Alabama, Florida, and South Carolina) accounted for 55 percent of U.S. peanut output; the Southwest (Texas, Oklahoma, and New Mexico), 32 percent; and the Virginia/North Carolina region, 13 percent. The largest producer was Georgia, which accounted for 37 percent of total peanut output, followed by Texas with 25 percent. Due to the geographic concentration in each state, peanuts account for a large share of farm and related agribusiness income earned in a number of peanut-producing counties.[24]

The current U.S. peanut program is a two-tier price support program that has a high support rate for peanuts for food use (quota peanuts) and a much lower rate for peanuts grown for export or crushing into oil and meal (additional peanuts). Non-recourse loans are available to all peanut producers and are administered by three area-wide marketing associations. The program relies on domestic marketing quotas and tariff rate quotas on imports.

Any farmer may grow peanuts; however, only those producers who hold or lease a peanut quota may market their production for food use, and then only in an amount equal to the individual quota assigned to the acreage they farm. A national quota established and distributed among eligible states is based on each state's share of the previous year's quota, and then distributed by "farm" to quota holders based largely on past production history.[25]

The FAIR Act of 1966 changed the way the USDA arrives at the annual national poundage quota. Up until 1996, the USDA was required to set the national quota,

23. USDA/ERS, "Livestock, Dairy and Poultry Situation and Outlook", September 28, 2000.
24. Jurenas, Remy. "Peanut Policy Issues", CRS Issue Brief for Congress, August, 18, 2000.
25. Sanford, Scott. "U.S. Peanut Consumption Rebounds", USDA/ERS, Agricultural Outlook, December, 1998.

including seed use, at not less than a specified statutory minimum (1.35 million tons for 1991 to 1995), regardless of projections regarding expected use. Today, the USDA establishes a national poundage quota equal to projected U.S. peanut consumption for food and related uses (excluding seed). The national poundage quota for 2000 is 1.18 million tons, the same as set for 1999, and 12.6 percent below the previous statutory minimum level. The current quota level is based on the USDA's assessment that domestic peanut consumption for food has leveled off and the belief that peanut imports allowed to enter under trade agreements will continue to displace domestically produced peanuts in U.S. food uses.

Under the terms of the current program, the owner of a farm or the operator of a farm with the owner's permission may sell or lease part or all of the poundage quota for that farm to the owner or operator of another farm in that state. In most cases, the transfer of quota is limited to 40 percent of the total quota for an individual county.

The FAIR Act also froze the quota loan rate for 1996 through 2002 crops at $610 per ton (30.5 cents per pound), effectively reducing quota support by 10.1 percent from 1995's $678.36 per ton (33.92 cents per pound.) level. The 1996 Act retained the requirement that USDA set the loan rate for additionals at a level that ensures that the Commodity Credit Corporation does not incur losses from their sale and disposal, taking into account demand for peanut oil and meal, expected prices of other vegetable oils and protein meals, and export demand for peanuts. For 2000, the USDA set the loan rate for additionals at $132 per ton (6.6 cents per pound), $43 less than the level of $175 per ton set for additionals marketed from the 1998/1999 crops.

For the 1999 crop, producers became eligible to receive a payment equal to five percent of the quota or additional loan rate. For quota peanuts marketed, this results in a payment of $30.50 per ton (1.525 cents per pound); for additional peanuts, this provision means a payment of $8.75 per ton (just over four-tenths of one cent per pound). Under fiscal year 2000 agriculture appropriations authority, USDA disbursed $55 million to eligible peanut growers by late May 2000 for the 1999 crop. The 2000 farm aid package makes available similar payments for the 2000 crop. USDA estimates that $47 million will be made available to eligible growers in 2001. These payments are intended to partially compensate growers for continuing low commodity prices and the increasing costs of production.

Imports in the 2000/2001 marketing year are expected to account for seven percent of domestic food use, compared with negligible amounts before 1993/1994. Increased imports reflect the market access commitments made by the United States under various trade agreements.

The United States imposes tariff-rate quotas (TRQ) on imported peanuts under the provisions of multilateral and bilateral trade agreements. The TRQ, based on General Agreement on Tariffs and Trade (GATT) market access rules, permits imports up to a specified level (the in-quota amount) to enter at a bound, or fixed, tariff. Imports above the in-quota amount in each TRQ can also enter, but are subject to a very high tariff.

Most peanuts imported within quota under the provisions of the GATT are subject to a duty of 9.35 cents per pound. Under the agreement, Argentina is allocated more than an 80 percent share of the TRQ. Under the terms of separate agreements between the U.S. and Israel, Canada, and member nations of the Caribbean Basin Initiative and Andean Pact Trade Area, within-quota peanuts from these countries may enter duty free. Most over-quota peanut imports are subject to an ad valorem tariff of 163.8 percent.[26] The protection afforded by the high above-quota tariff effectively eliminates the price competitiveness of over-quota imports at the present time.

Although the over-quota tariff gives domestic producers some element of protection against imports, the U.S. market access commitments greatly increase the amount of peanut imports relative to earlier years. Until 1995, peanut imports were controlled by Section 22 import quota provisions with a quota of 2.3 million pounds, in–shell basis. Peanut imports in 2001 are forecast to reach 169 million pounds.

Under the terms of the North American Free Trade Agreement (NAFTA), Mexico has duty-free access to the U.S. market for Mexican-produced peanuts under a quota that gradually rises through 2007. The base quota for Mexican peanut imports to the U.S. was set at 3,377 tons, increasing by three percent annually to 4,495 tons in 2007. Beginning in 2008, Mexican-origin peanuts will be allowed to enter in unlimited quantities.

A separate GATT-based import quota also caps U.S. imports of peanut butter and paste. The in-quota volume of peanut butter and paste is set at 20,000 metric tons, with specific allocations to Canada and Argentina. Imports of peanut butter and paste from Mexico under NAFTA are exempt from this quota as long as peanuts used in these products are grown in Mexico. As with peanuts, the above-quota tariff is effectively prohibitive, set at 131.8 percent ad valorem.

Supporters of the current peanut program express concern that further changes to the domestic peanut program and/or international agreements relating to the import of peanuts and peanut products may threaten the economic viability of peanut producers, especially those small and socially disadvantaged dry-land producers who currently farm on rented land and rent quota.

Critics of the peanut program argue that keeping the U.S. domestic price higher than world prices results in substantial production and consumption inefficiencies.[27] Higher domestic prices are linked to sluggish growth in the demand for peanut products. In addition, the high cost of domestic peanuts is suggested as an incentive for competing peanut-producing countries to expand their production, processing, and manufacturing infrastructure. Opponents point to the appearance of peanut butter and paste imports from Mexico as an example. Further, critics of the U.S. two-tier peanut pricing system

26. Skully, David. "U.S. Tariff-Rate Quotas for Peanuts", USDA/ERS, Oil Crops Situation and Outlook, Special Article, October, 1999.
27. Speakman, David. American Peanut Coalition. Testimony to the Commission on 21st Century Production Agriculture, Scranton Pennsylvania, September 25, 1999.

charge that it is inconsistent with U.S. objections in the WTO to similar plans in other countries, such as the U.S. challenge to the Canadian dairy program.

The health of the peanut industry, or any agricultural industry for that matter, is dependent on consumer demand. Everything else being equal, an expanding demand will generate an expanding industry. In the five years up to the 1996 FAIR Act, food use of peanuts fell 16 percent. Food use has since increased by about six percent through 1999. Forecasts of the long-term trend for domestic peanut consumption call for slow but steady growth through the decade. The role of the domestic peanut industry in supplying that demand will be dependent in large part on the course of future agricultural trade policy and domestic farm policy.

To better understand the potential effects of changes in the U.S. peanut program, the Commission recommends that the following options be examined: a phased reduction of the quota system with compensation to existing quota holders, allowing for movement of quota across state boundaries; subsidies to manufacturers to stimulate purchase of domestically grown peanuts (similar to the Cotton Step 2 program); a marketing loan for peanuts; a direct-payment-type program for producers of quota peanuts; and greater incentives for increased industry competition to reduce concentration.

Sugar

The United States is the world's largest single-country market for sugar and corn sweeteners, the fourth-largest sugar producer in the world, and the number one producer of corn sweeteners. In the 1990s, U.S. sugar beet and sugar cane production has accounted for about 80 percent of domestic sugar use. The balance is imported from more than 40 countries. The U.S. industry has been supported and regulated by government programs since 1934, except during brief lapses in 1975, 1976, and 1980. Over this period, domestic sugar producers and processors have operated under a combination of price supports, import quotas and, when necessary, marketing controls to limit available supply.

Sugar is part of the larger caloric sweetener industry that includes corn sweetener, honey, and edible syrups. Corn sweetener is the major product of the industry, accounting for 56 percent of total caloric sweeteners. Sugar accounts for 43 percent of caloric sweeteners, while honey and edible syrup account for around one percent of total use.

Sugar is produced in 18 states. Sugar beets, which account for about 55 percent of domestic production, are grown in 14 states. Production in Minnesota, North Dakota, Idaho, and Michigan account for about 74 percent of the total harvested acreage. Sugar cane, which accounts for about 45 percent of domestic sugar production, is grown in Florida, Louisiana, Texas, and Hawaii.

The production of sugar cane increased in the 1990s primarily because of acreage expansion and improved yields in Florida and Louisiana. Sugar beet production also

increased, with production growth in Minnesota, North Dakota, and Idaho more than offsetting declines in California and Texas.

Sugar beets are processed directly into refined sugar, while sugar cane is processed initially into raw sugar that is refined before final sale. Both sugar cane and sugar beets deteriorate rapidly after harvest and must be processed immediately; hence, beet and sugar cane processing facilities are located in close proximity to major production regions. The geographic concentration of both production and processing of sugar cane and sugar beets has had significant effects on adjacent rural communities.

The American sweetener industry is estimated to involve directly and indirectly some 420,000 jobs in 42 states is associated with $26.2 billion annually in economic activity.[28] Sugar beets are processed in 33 factories across the country, creating 88,200 full-time direct and indirect jobs. Thirty-four mills process sugar cane and 12 sugar cane refineries create 71,900 full-time direct and indirect jobs. Unlike mills located near the cane fields to minimize transportation costs and post-harvest losses, all but two sugar cane refineries are located on or near the east and gulf coasts.

The current federal farm program covers sugar beet and sugar cane production for the crop years 1996 through 2002. The program maintains a loan rate of 18 cents per pound for raw cane sugar for processors of domestically grown sugar cane. A loan rate of 22.9 cents per pound for refined beet sugar is provided for processors of domestically grown sugar beets. Loans are made for a nine-month period, but must be repaid no later than the end of the fiscal year.

The terms of sugar loans have been tied to the level of anticipated imports of sugar. Loans were provided as non-recourse if anticipated imports of sugar under the TRQs are announced at a level above 1.5 million short tons, raw value (STRV) regardless of whether subsequent imports reach the announced level. The FAIR Act converted loans to a recourse basis if announced import expectations fell below 1.5 million STRV. In this case, the loan rate would not provide a floor under market prices. The fiscal year 2001 agricultural appropriations bill eliminated the link between anticipated import volumes and made sugar loans non-recourse.

Processors must provide payments to producers that are proportional to the value of the loan received by the processor for sugar beets and sugar cane delivered by producers. Processors are charged a penalty on the forfeiture of any sugar pledged as collateral for a non-recourse loan. The penalty rate is one cent per pound for raw cane sugar and 1.072 cents per pound for refined beet sugar.

The 1996 FAIR Act also eliminated an earlier provision that the sugar program operate at no net cost to the government and extended budget-deficit-related charges on cane sugar processors of 1.375 percent of the raw sugar loan rate per pound on all marketings of raw

28. “The Importance of the Sugar and Sweetener Industry to the U.S. Economy”, Landell Mills Commodities Studies Inc., August 1994.

cane sugar, and on beet sugar processors of 1.47425 percent of the refined beet sugar loan rate. These charges were suspended in 1999.

Under the provisions of the Uruguay Round Agreement, the U.S. established a minimum annual level of low-duty TRQ sugar imports of 1,117,195 metric tons, raw value (MTRV), of which 22,000 metric tons are reserved for refined sugar. A duty of 0.625 cents per pound applies to within-quota imports. Imports in excess of the minimum TRQ level may be subject to a duty of 15.36 cents per pound. The U.S. trade representative is responsible for allocating the TRQ among importing countries. Most countries exporting sugar to the U.S. also have the low duty waived under either the General System of Preferences or the Caribbean Basin Initiative.

The over-quota tariff level of 15.36 cents per pound is expected to be prohibitive, making additional imports unprofitable. This assumption is based on a transport cost of about 1.5 cents per pound and on world sugar prices above five cents per pound, thereby supporting a domestic raw sugar market price of about 22 cents per pound.

Under the provisions of NAFTA, market access for Mexican net surplus sugar (excess of production over consumption including high-fructose corn sweetener) is subject to certain constraints. In 2000, Mexico had duty-free access for sugar exports to the U.S. in the amount of its net surplus production up to a maximum of 25,000 MTRW. During 2001 through 2007, the amount of Mexico's duty-free access for sugar exports to the U.S. is subject to debate. The USDA established a TRQ allocation for Mexico in fiscal year 2001 of 116,000 MTRV. Under the terms of the NAFTA side letter, however, Mexico is entitled to access of an amount of net surplus production up to a maximum of 250,000 metric tons. This maximum allocation is a ten-fold increase from Mexico's allocation of 25,000 MTRV in fiscal year 2000. In 2008 and beyond, Mexico will have unrestricted duty-free access for sugar exports to the U.S. of its production of sugar.

Through 1999, the provisions of the FAIR Act and related commitments regarding sugar in the Uruguay Round Agreement and NAFTA did not significantly undermine the support provided by the existing program for the U.S. sugar industry. Prices for raw sugar and refined beet sugar in 1999 averaged 22.07 cents per pound and 27.02 cents per pound, respectively. The level of the TRQ has been sufficiently high to retain the non-recourse loans for sugar, and no sugar was forfeited to the Commodity Credit Corporation.

At the beginning of 2000, the U.S. sugar industry came under great stress. The USDA announced the year 2000 raw sugar TRQ at 1,501,348 short tons, thereby retaining the non-recourse loans. Market prices, however, fell below the loan rate and resulted in producer forfeitures and related government costs.

The potential consequences of domestic production and consumption trends, combined with existing commitments under international agreements, will lead to further potential stress for the sugar program in the future. The February 2000 USDA baseline projects

that the stocks of U.S. sugar will continue to increase to 2010.[29] Mexican sugar exports are projected to begin entering the U.S. market in quantities equal to their NAFTA maximum duty-free access in 2001. In 2008, Mexican sugar exports to the U.S. are projected to increase to more than one million STRV. At that point, the U.S. is projected to reduce the TRQ to the Uruguay Round Agreement minimum of 1.256 million STRV. At these levels of imports, the stocks-to-use ratio is projected to climb from 16.0 percent in 1999, to 32.8 percent by 2010.

Falling domestic sugar prices are projected to accompany the increase in the stocks-to-use ratio. Prices trend downward over the forecast period from 22.07 cents per pound in 1999 to 15.37 cents per pound in 2010. A decline in grower prices is projected to follow from falling domestic sugar prices. When stocks-to-use ratios reach 25 percent and higher, USDA projects that sugar beet prices will decline to $34.55 a ton down from $35.50 a ton in 1999, while sugar cane prices will fall to $25.91 a ton from $28.20 a ton.[30]

In the out years, a combination of anticipated Mexican imports and the Uruguay Round Agreement minimum-access TRQ level are assumed to count toward the trigger import level required to achieve the non-recourse loan threshold. As a result, if these projections are realized, sugar forfeitures will occur and government stocks will accumulate under the provisions of the current program. Beyond 2010, without some adjustments in current policies, U.S. government sugar inventories are likely to continue to grow and domestic sugar prices will continue to decline. While projections such as these are likely to change, they illustrate the underlying forces that seem likely to push the domestic sugar market toward imbalance in future years.

Recent policy developments provide a glimpse of what may be become a more regular occurrence without modification to the existing sugar program. In May 2000, the USDA announced that it was going to purchase sugar in an effort to reduce the cost of expected sugar program loan forfeitures, support sugar growers, and help stabilize low market prices. In August 2000, the USDA announced a new effort to help sugar producers by allowing them to enter into competitive bids to divert acreage in return for sugar held by the USDA. At the same time, a continuing dispute remains with Mexico regarding the amount of market access it is eligible for under the terms of the NAFTA. Efforts are also underway to prevent U.S. companies from importing some sugar-containing products that are used for the purposes of extracting sugar for further processing (for example, stuffed molasses). In the absence of some change in current production patterns in the U.S., shortfall in world sugar markets, or an unforeseen spike in sugar demand, conditions in the domestic sugar industry will continue to be challenging.

The Commission believes that serious consideration must be given to developing an alternative to the current sugar program. The following program options, individually or

29. USDA Baseline Projections, February 2000.

30. For market prices to decline below loan rate levels, the government must be assumed to release accumulated stocks into the market, while producers would be assumed to receive the statutory loan rate payment for forfeited sugar placed in collateral for loans.

in combination, should be evaluated within the context of a commitment to a continuation of our existing international commitments on sugar imports: a marketing loan for sugar, domestic marketing controls, domestic production controls, and some form of direct payment to sugar producers.

Tobacco

In 1999, the U.S. produced 1.293 million pounds of tobacco harvested from 647,000 acres on 90,000 farms. The estimated farm value of the 1999 crop was $2.3 billion. Major U.S. tobaccos are flue-cured (produced primarily in North Carolina) and burley (produced primarily in Kentucky). Both are cigarette tobaccos and account for more than 90 percent of the tobacco grown in the U.S. Other types of tobacco are used for cigars, chewing, and snuff.[31]

Tobacco is grown in 16 states. North Carolina and Kentucky account for 65 percent of total production. Four other states (Tennessee, Virginia, South Carolina, and Georgia) produce another 26 percent. The high per-acre value of tobacco sales makes it critical to the income of the growers and important to the economies of the major producing states. In 1996, North Carolina's tobacco constituted 14 percent of the value of all farm commodities (crops and livestock); in Kentucky, tobacco accounted for 22 percent of the value of all commodities.

The federal tobacco program provides for marketing quotas and price support in the form of non-recourse loans. A grower referendum held every three years determines whether producers accept federal price supports. National marketing poundage quotas and acreage allotments are announced once a year.[32] Currently, growers of fire-cured, dark air-cured, and Wisconsin binder tobaccos have approved marketing quotas applicable to the 2001 crops. The growers of flue-cured, burley, Virginia sun-cured, Maryland, and Pennsylvania filler will vote in January 2001 on whether to have quotas on the 2001, 2002, and 2003 crops. Growers of fire-cured tobacco and dark air-cured tobacco voted in separate referenda held in March 2000 to continue marketing quotas for the years 2000, 2001, and 2002.

In the past, growers of some types of tobacco have chosen not to have national marketing quotas. The producers of Maryland, Pennsylvania filler, and Connecticut binder tobacco turned down marketing quotas in their last referenda (1998). Producers of Pennsylvania filler tobacco have never had marketing quotas, while Maryland tobacco quotas last applied to the 1965 crop and Connecticut binder quotas last applied to the 1983 crop. The production of shade-grown wrapper tobacco is not covered by marketing quota legislation.

The quota law provides that the annual flue-cured and burley quotas equal the sum of buying intentions of domestic cigarette manufacturers, the three-year average of

31. Womach, Jasper. "Tobacco Price Support: An Overview of the Program", Congressional Research Service, 95-129 ENR, updated August 29, 2000. NASS data updated September 1, 2000.
32. USDA/ERS. "Tobacco Situation and Outlook", TBS-247, September, 2000.

unmanufactured tobacco exports, and adjustments of loan association inventories needed to reach a desired reserve stock level. The Secretary of Agriculture then has the option to adjust this three-part total either up or down by a maximum of three percent. Conditions in the tobacco market have resulted in substantial declines in annual quota levels. In 1996, the flue-cured tobacco national marketing quota was 874 million pounds; for 2000, the quota was set at 543 million pounds. The national marketing quota for burly tobacco declined by 45 percent from 1999 to 247 million pounds in contrast to the 1996 quota of 631 million pounds.

National marketing quotas for flue-cured and burley tobacco are assigned to the land. The current system places a number of restrictions on the use of quota. To produce and market tobacco under the federal program, a producer must either own land with tobacco quota, purchase or rent land with quota, or lease quota under existing restrictions. Lease and transfer of flue-cured tobacco quota was permitted from 1962 to 1986. Flue-cured quota leasing and transfer was abolished in 1987, but reinstated in cases of disaster beginning in 1998. Lease and transfer of quotas became effective for burley in 1971.

In 1990, the Farm Poundage Quota Revisions Act provided for greater use of burly quota. The Act permitted the sales of burley tobacco quota within counties beginning with the 1991 crop. The sales were restricted to other burley growers and to poundage limitations. Sales of flue-cured tobacco have been permitted since 1982. Under the 1990 Act, quota holders were required to lease or attempt to grow their quota in two out of three years or forfeit the quota. Previously, the rules had required leasing or attempting to grow in one out of five years. Lease and transfer of quota across county lines was approved by burley producers in Tennessee in January 1991.

The federal government also provides a price guarantee in the form of non-recourse loans for producers of quota tobacco. Support levels for 2000 average $1.640 per pound for flue-cured and $1.805 per pound for burley. Grade loan rates range from $1.20 to $1.85 per pound for flue-cured and $1.14 to $2.07 per pound for burley. Price supports for other supported types range from $1.238 per pound to $1.716 per pound. For 2001, the flue-cured and burley price support will be the level for 2000 adjusted by changes in the five-year moving average of prices (two-thirds weight) and changes in a cost-of-production index (one-third weight). Costs include general variable expenditures but exclude costs of land, quota, risk, overhead, management, marketing contributions, and other costs not directly related to tobacco production. The Secretary of Agriculture can set the price support at the previous year's level adjusted by between 65 and 100 percent of the calculated increase or decrease. For other kinds of tobacco, changes in price support are based on the average of the parity index during the three previous years compared with 1959. However, loan associations can request lower support levels if market conditions warrant.

If the auction price offered for tobacco is below the government loan price, the producer is paid the loan price by a producer-owned stabilization cooperative with money borrowed from the Commodity Credit Corporation. The cooperative holds the tobacco as collateral for the Commodity Credit Corporation and subsequently sells the tobacco to

cover the cost of the loan plus interest. Under the provisions of the No-Net Cost Tobacco Program Act of 1982, growers and buyers pay an assessment on each pound of tobacco marketed. This money is held in escrow to reimburse the government should the sale of collateral tobacco fail to cover the cost of the Commodity Credit Corporation's loans plus interest.

Largely in response to decreases in marketing quotas, tobacco producers received additional government assistance in the form of market loss payments in fiscal year 2000. The Commodity Credit Corporation was allocated $328 million for distribution directly to growers based on the amount that their quotas were reduced in 1999. An additional $2.8 million was approved for flood damage that occurred on warehouse auction floors. Further support was also awarded to tobacco growers in the amount of an additional $340 million in market loss assistance as part of the Agricultural Risk Protection Act of 2000**.** In addition, the fiscal year 2001 Agricultural Appropriations Act allowed for the forfeiture of burley tobacco without charge to the no-net-cost account.

U.S. tobacco producers are also greatly affected by events in world markets. The U.S. is the largest exporter of manufactured tobacco products and is the third-leading exporter of tobacco leaf behind Brazil and Zimbabwe. As described earlier, the level of domestic market quota is determined in part on expectations for export marketings. Exports account for more than 30 percent of the annual disappearance of burly and flue-cured leaf tobacco. At the same time, tobacco imports, controlled by tariff rate quotas, as a share of domestic use have increased from 31.6 to 37.5 percent from 1996 to 1999. With domestic consumption on the decline, export markets will become even more important to the health of the industry. For example, the recent opening of the China market provides increased opportunities, but U.S. tobacco and tobacco products may be not be competitively priced at current support levels.

In addition to traditional market forces, an agreement between the tobacco industry and states' attorneys general in 1998 required manufacturers of tobacco products to reimburse the states for tobacco-related illnesses and provide for measures that would reduce underage tobacco consumption. The Master Settlement Agreement (MSA) was a result of lawsuits filed against the tobacco industry in more than 40 states, resulting in a total payout of $206 billion to be paid annually from 1998 to 2023, including $300 million per year for research in antismoking campaigns.[33] If states commit a substantial portion of the annual payments to comprehensive tobacco control programs, and if those efforts are tied to a national strategy, then public health officials are confident that the agreement will lead to significant reductions in tobacco use. The settlement, along with forecasted declines in domestic consumption, is expected to have long-term impacts on tobacco growers.

Tobacco producers also receive some compensation as a result of the MSA. The four cigarette manufacturers that signed the MSA negotiated with the tobacco-growing states to establish the National Tobacco Growers' Settlement Trust Fund. The fund will compensate tobacco farmers and quota holders for financial losses resulting from the

33. Capehart, Tom. "The Tobacco Settlement", USDA-ERS, October 1, 1999.

anticipated MSA-driven decline in cigarette consumption. Under the agreement, the four companies will pay into the trust fund a total of $5.15 billion over 12 years. Only those states that grow flue-cured, burley, and Maryland-type tobacco for the manufacture cigarettes are eligible to receive payments from the trust fund. The fourteen eligible states are Alabama, Florida, Georgia, Indiana, Kentucky, Maryland, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, and West Virginia.

Funds are allocated to the states according to their 1998 tobacco quota marketings or production. To receive funds, each state is required to establish a certification board to develop a spending plan and submit it to the trustee for approval. Board membership must include the state governor and attorney general, state legislators, members of the state's congressional delegation, and representatives of the tobacco growers and quota holders. The five leading tobacco-growing states, which account for 89 percent of total production, will receive approximately the following amounts: North Carolina, $1.97 billion; Kentucky, $1.5 billion; Tennessee, $394 million; South Carolina, $361 million; and Virginia, $342 million.

The future for U.S. tobacco producers is one of continued challenges. Expected continued declines in domestic demand for tobacco and tobacco products and increased competition from imports and foreign production will erode the market for U.S.-grown tobacco. Public pressure will likely combine with market forces to make the current tobacco program difficult to sustain. Evidence of this trend is illustrated by the actions of the President in establishing the "Commission on Improving the Economic Opportunity in Communities Dependent on Tobacco Production while Protecting Public Health" to address the uncertainties associated with the current tobacco program and public health concerns. This commission will provide recommendations on ways to improve economic opportunity and development in tobacco-dependent communities. Increased marketings of tobacco outside the federal program may foreshadow enhanced efforts by manufacturers to contract directly with producers for quality standards and other product characteristics that will erode the effectiveness of the current program.

Given the current situation and other ongoing efforts to explore options to the current tobacco program, the Commission on 21st Century Production Agriculture feels that its role in the debate should be limited to providing an outline of possible program changes or modifications for consideration. The options to the existing program that the Commission believes should be examined include the following or some combination thereof: increasing transferability of quota across county lines and/or state lines, a buyout program designed to phase out the quota program, and a marketing loan for tobacco with a view to increased export competitiveness.

VI. Small and Limited-Resource Farm Issues

Introduction

Small and limited-resource family farms are defined as farms on which the day-to-day labor and management are provided by the farmer and/or the farm family who own the production or own or lease the productive assets. Further, small and limited-resource farms are those that earn a gross income from farming operations of more than $1,000 but less than $250,000 annually.[34]

Small and limited-resource farms face challenges similar to those of all production agriculture operations. At issue is the availability of government assistance to these farms. Currently, they mainly receive assistance from the government for conservation cost-sharing and technical assistance, risk management, federal loan programs, commodity programs, and loans for beginning farmers.

Participation by small and limited-resource farms in the general farm programs described earlier in this report is constrained by several factors. The conditions and provisions of many of the federal farm programs require basing payments to producers on a historical acreage of traditional commodity crops. Many small and limited-resource farms grow nonprogram crops, so their participation is limited. For example, a farmer who has no history of producing program crops is not eligible under the 1996 FAIR Act to receive direct government assistance in the form of production flexibility contract payments. Also, provisions in some legislation prohibit farmers who have had debt forgiveness from receiving future USDA loans and/or credit assistance. In addition, conservation cost-sharing programs such as the Environmental Quality Incentives Program (EQIP) specify that participants enter into a five-year contract to receive assistance. Many small and limited-resource farmers are excluded from effectively participating in potentially beneficial programs such as EQIP because they rent their land on an annual basis.

Recommendation of the Commission

The Commission on 21st Century Production Agriculture recognizes the importance and value of the small family farm in production agriculture and rural communities. The Commission further recognizes the significant impact that government policy has on the economic condition of small family farms.

The Commission acknowledges the work of the National Commission on Small Farms. The National Commission on Small Farms was created in 1997 by order of USDA regulation to "gather and analyze information regarding small U.S. farms and ranches and recommend to the Secretary of Agriculture a national strategy to ensure their continued viability in U.S. agriculture, including specific measures which could be adopted by the public, non-profit and private sectors to enhance the economic livelihood of small

34. National Commission on Small Farms

farms."[35] Its work continues in the activities of USDA's Advisory Committee on Small Farms.

The Commission believes that the USDA Advisory Committee on Small Farms is well positioned to advise lawmakers on policy matters and should be the lead group in this issue area. The Commission also 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 Consideration

Assistance for Beginning Farmers

Currently, the Farm Service Agency (FSA) offers several loans for beginning farmers and ranchers. FSA provides guaranteed and direct farm ownership loans as well as guaranteed and direct farm operating loans. FSA also provides a joint financing plan to beginning farmers that lends 50 percent of the amount financed at a reduced interest rate with the other 50 percent or more provided by another lender. FSA also offers acquired farm property first to eligible beginning producers at the appraised market value. In addition, FSA has a Down Payment Farm Ownership Payment Loan Program to assist farmers and ranchers in purchasing a farm. This program also provides retiring farmers with a means of transferring land to a future generation of farmers and ranchers.[36] The Commission recommends examining existing state programs and the development of nationwide programs that facilitate established farmers in assisting beginning farmers.

To aid future generations of American farmers, a matching grant program 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.

Minority Small and/or Limited-Resource Farms Registry

The development of 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.[37]

35. USDA Regulation No. 1043-43.
36. USDA-FSA.
37. Parts from "A Time to Act." A Report of the USDA National Commission on Small Farms. January 1998.

Conservation Programs as Part of a Safety Net for Small Farms

The Natural Resource Conservation Service's (NRCS) Outreach Division currently offers outreach and technical assistance for traditionally under-served farmers. The overall goal of the program is to increase the number of small or limited-resource and minority producers and directly improve their farm income. Objectives are to make grants and enter into agreements with community-based organizations and educational institutions to provide outreach and technical assistance.[38]

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. The special outreach assistance would aid farmers and ranchers in soil erosion and sediment control practices, comprehensive nutrient management planning, wetlands conservation, water conservation and management, plant materials, soil survey, snow survey/water supply, emergency watershed protection, flood control, wildlife habitat, ground water protection, natural resource information, air quality, and in improving grazing land quality.

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.

The NRCS's Conservation Technical Assistance program could be extended to include assistance for compliance with environmental regulatory requirements. 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.[39]

Risk Management

Many small and limited-resource farms do not produce traditional commodity crops, instead relying on the production of fruits and vegetables for their income. The Risk Management Agency (RMA) currently offers crop insurance pilot programs for several fruits and vegetable crops. Some of the crops that are insured under a common crop insurance policy are avocados, blueberries, cherries, chile peppers, cucumbers, fresh market beans, mint, strawberries, watermelon, and winter squash. These crop insurance pilot programs are for growers in selected regions and not necessarily targeted to small and limited-resource farmers.[40]

38. USDA-NRCS.
39. American Farm Bureau Federation. *Ideas for the 2002 Farm Policy Debate*, June 2000.
40. USDA-RMA.

Initiating future crop insurance pilot programs (insuring fruits, vegetables, etc.) targeting small and limited-resource farms could measure the feasibility of insuring nontraditional crops. 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.

Small-Farm Competitiveness

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.[41]

Conclusion

The dynamics of production agriculture in the 21st century may provide unique opportunities for small and limited-resource farms. The ability of smaller farms to locally market their crops directly to consumers may provide them with a more consistent income than they could otherwise receive in the large, volatile commodity markets. The opportunity for small and limited-resource farms to participate in government assistance programs may help these producers establish themselves in both niche and local markets.

41. American Farm Bureau Federation. *Ideas for the 2002 Farm Policy Debate,* June 2000.

Minority View
Commission on 21st Century Production Agriculture
Small and Limited-Resource Farms – Addendum
Ralph Paige

Background

The final report of the Commission on 21st Century Production Agriculture acknowledged the contribution of the USDA National Commission on Small Farms in identifying and analyzing the many issues unique to this segment of U.S. agriculture. Through its work, embodied in the January 1998 report, "A Time To Act", the National Commission on Small Farms presented a broad range of policy goals and recommendations designed to address the challenges faced by small and limited-resource family farms. Activities concerning this important sector of agriculture have been continued through USDA's Advisory Committee on Small Farms.

Policy Recommendations

- Support for the areas of consideration identified by the Commission on 21st Century Production Agriculture.
- Expeditious implementation of all the recommendations of the USDA National Commission on Small Farms.

COMMISSION ON 21ST CENTURY PRODUCTION AGRICULTURE

SMALL AND LIMITED-RESOURCE FARM ISSUES

The undersigned members of the Commission on 21st Century Production Agriculture concur with the findings and recommendations contained in the statement on small and limited-resource farm issues, and in addition support the policy recommendations listed above.

Bruce J. Brumfield
Mississippi

James O. DuPree
Arkansas

Ralph Paige
Georgia

Leland Swenson
South Dakota

Minority View
Commission on 21ST Century Production Agriculture
Antitrust and Industry Concentration
Leland Swenson

Background

The economic, social, and political consequences of industry consolidation on U.S. consumers have resulted in varying levels of public intervention in commercial markets and industrial organizational structure since adoption of the Sherman and Clayton Antitrust Acts of 1890 and 1914, respectively.

In the case of agriculture, however, little in the way of regulatory antitrust enforcement has occurred. The lack of concern over vertical and horizontal integration within the agriculture sector is the result of a number reasons, but primarily founded on the general decline in the level of consumer disposable income spent on food over the last century. The consumer benefit of lower cost food has generally suggested the presence of adequate competition in the marketplace and the assumption that mergers were resulting in new levels of efficiency in the sector, the economic benefits of which were passed on to the consumer. This view may in fact be very misleading when the increases in consumer food costs are considered in relation to the changes in margins or price spreads among various agricultural sectors over time.

American agriculture was generally assumed to be the closest fit to the free enterprise, free market textbook theory, and compared to other systems, appeared to be working in an exemplary fashion. This view was even more plausible if one ignored or rationalized the level of public policy intervention in agriculture.

Little analysis was conducted to determine if the consumer was receiving a better food bargain because of competition-induced efficiency in the system or as the result of disproportionate levels and use of market power among industry participants. Furthermore, the relationship of integration among the input supply, merchandising, processing, retailing, and infrastructure sectors to transactional markets, consolidation of farms, and the historically poor economic performance of producers were greatly ignored.

The deregulation of the 1980s, particularly in the rail transportation sector, and lax enforcement of antitrust laws relating to agriculture, was based on industry claims that greater efficiency caused by increased operational scale would occur, improving U.S. agriculture's global competitiveness and ensuring continued reductions in consumer food expenditures. Again, little consideration was given to the impact of the emerging round of domestic and multinational mergers, consolidations, and strategic alliances on both producers and consumers.

Integration and contract production in the poultry industry have, for all practical purposes, eliminated both the independent producer and transparency in the intermediate market for the whole sector.

In agricultural processing, the top four firms control 81 percent of all steer and heifer slaughter, 57 percent of the hog slaughter, and 62 percent of flour milling. If currently proposed mergers are allowed to take place, concentration ratios will increase significantly once again.

Competition in the input supply industry for grain producers also has been substantially reduced through mergers and alliances among seed companies, crop-protection manufacturers, and grain merchandisers on a multinational basis. The remaining handful of integrated companies control both crop genetics and much of the new production technology. On an increasingly global basis, these firms are able to further exploit their market advantage and reduce potential competition through the use of patents and other intellectual property rights as well as discriminatory marketing practices.

The level of competition in the major transportation sector, railroads, has declined significantly. In 1980, more than 40 large railroads competed, within a regulatory framework, to transport the majority of the nation's grain supply. After 20 years of deregulation only two Class-1 railroads operate in the West and two in the East. Increased freight rates, reduced service levels, and an effective allocation of the existing market among the remaining players who are also able to limit the entry of new competition are the rule.

Increased concentration and increased market power of the food-retailing sector have further undermined the competitive agricultural market system. The capacity for large retailers to contract with larger processor/merchandisers for slotting fees or to create other noncompetitive arrangements further distorts the marketplace and precludes innovation and entry by new firms, resulting in an even greater spread between producer returns and retail consumer costs.

Lessons learned at great expense in the early 20th century concerning the direct relationship between the level of concentration in an industry or sector and non-competitive pricing strategies imposed on both buyers and sellers appear to have been forgotten as we enter the 21st century. The current structure and conduct of large market participants who control production inputs, processing, merchandising and infrastructure capacity, and retail selling impose substantial economic, political, and social costs on both agricultural producers and consumers.

Antitrust Components

The Department of Justice and the Federal Trade Commission enforce U.S. antitrust laws. In addition, authority over specific sectors or activity has been provided to other federal agencies, such as the United States Department of Agriculture under the Packers

and Stockyards Administration Act for the consideration and remediation of anti-competitive behavior within the livestock industry.

The traditional antitrust approach to monopolistic practices seeks to provide relief to downstream consumers who have experienced or are likely to experience economic injury as a result of the action(s) of one or more firms. Under these laws, the government, as regulator, may invoke penalties for certain anticompetitive practices, enjoin companies from a specific activity such as price fixing or merging, or establish conditions under which such a merger may be approved, such as partial divestiture of facilities or operations.

Increasingly, the costs associated with excessive vertical or horizontal integration within an agricultural sector is experienced and more readily identifiable by examining the impact on those upstream participants with the least amount of market power – agricultural producers.

The U.S. should revitalize its antitrust policies and enforcement capacity to ensure and maintain that the level of market and sector concentration promotes open, competitive efficiency throughout the system and encourages market and transactional transparency.

Policy Recommendations

- Increase the review and enforcement capacity of agencies charged with antitrust responsibility so that effective challenges can be mounted against activities that increase market or sector concentration, reduce competition, or impose restrictive agreements.
- Broaden the role of other government agencies, such as the Department of Agriculture, in the review and enforcement process.
- Establish a concentration ratio threshold that initiates antitrust action in a market, industry, or sector, and identify the issues for consideration in a review/enforcement action. These should include, but not be limited to, concentration ratio, expected efficiency gains, and market and transactional transparency.
- Expand authority to include the anticompetitive effects of other organizational arrangements and practices such as joint ventures, strategic business alliances, slotting fees, etc.
- Shift the burden of proof concerning the effects of greater concentration in a market, industry, or sector to those seeking greater concentration or integration.
- Require firms to identify the distribution of any benefits of increased concentration among other industry participants and consumers.
- Ensure the rights of all upstream and downstream industry participants to recover damages for injury associated with the anticompetitive behavior of others.
- Expand public access to the review and enforcement process.
- Seek international harmonization of competition policies and greater cooperation in establishing multilateral review and enforcement activities to address anticompetitive behavior on a global basis.

- Provide for an ongoing review process of both past and present mergers.
- Ensure full compliance with the merger approval process.
- Measure the actual results against the projections used to justify the merger.
- Create additional opportunities to provide relief, and enhance competition if the results deviate from the projections.

Market Competition

Many companies engage in activities that may serve to limit market competition, transparency, or choice among other industry participants and/or consumers that fall outside current or traditional antitrust regulations and enforcement. Additional authority should be approved to ensure that the market-distorting or anti-competitive results of these practices are continuously reviewed and appropriate avenues for redress provided.

- Review and establish a regulatory framework to address market-distorting activities.
- Expand and strengthen mandatory price-reporting regulations.
- Establish limitations on the level of vertical integration allowed in a sector, including the ownership and/or production of captive supplies.
- Implement regulations to establish labeling requirements to identify product origin.
- Develop enforceable guidelines for production and marketing contracts to limit the potential for discrimination or abuse of market power against certain market participants and ensure transparency of contract terms.
- Review the anti-competitive domestic and global implications of patent and intellectual property protections.
- Expand the public role in enhancing competitive markets.
- Target economic development grants to projects that increase the level of market participants and competition.
- Ensure that the results of publicly funded research and development activities remain in the public domain and are compatible with the goal of market decentralization.

THE COMMISSION ON 21ST CENTURY PRODUCTION AGRICULTURE
ANTITRUST AND INDUSTRY CONCENTRATION

The undersigned members of the Commission on 21st Century Production Agriculture concur with the findings and recommendations contained in the alternative report on antitrust and industry concentration.

James O. DuPree
Arkansas

Leland Swenson
South Dakota

Appendix

The Status of U.S. Agriculture
An Update

Summary

American agriculture is important to both the domestic economy and to the world. It supplies most of the nation's domestic food and fiber consumption and is the world's largest agricultural export industry. Maintaining and improving the productive capacity and competitive efficiency of U.S. agriculture remains a national priority. Farming's structural characteristics also are important to the strength and security of the nation. Federal policies and programs play an important role in shaping the farm economy. This report describes the structure and economic condition of production agriculture and some of the federal programs that have a direct impact on farming.

The financial condition of farmers is one measure of the sector's economic health and its ability to meet future demands. Estimates for 2000 put national farm cash income 1.1 percent above 1999. The higher income was the result of stronger prices for livestock caused primarily by an increase in demand. Cash receipts for food, feed, and oilseed crops remained low for 2000 because low prices fueled by large supplies and weak exports prompted Congress to enact emergency relief for the third year in a row. In the absence of this assistance, net cash income in 2000 would have declined about 11.4 percent from 1998 and 17.7 percent from 1996. Land prices had shown a steady rise through 1997, but have leveled off in response to the lower farm income. Farmers' ratio of debt to assets, however, is about 15.4 percent -- the lowest level since 1964 -- putting farmers in a strong equity position.

Farming, like other sizable and important sectors of the economy, benefits from a combination of federal programs that are often described as a safety net. Historically, the federal government has intervened to try to stabilize market supplies of major commodities -- in particular, food and feed grains, cotton, sugar, peanuts, milk, and tobacco -- to reduce price volatility and to support farm incomes. Intervention typically included some combination of limits on production, storage of excess inventories, and price and income support payments. The Federal Agricultural Improvement and Reform (FAIR) Act of 1996 eliminated the annual supply management programs for program crops. In addition, the new farm law created fixed but declining agricultural market transition payments (contract payments) to replace price-sensitive and production-linked "target price-deficiency payments." It also gave producers the freedom to plant any crop on contracted acres with the exception of fruits and vegetables. The new law is characterized as a transition to the market environment with farmers becoming more responsible for their own choice of risk-management tools. In the current and future market environment, risk management is becoming a fundamental aspect of farming. There are several sources of risk to farmers and a variety of methods for managing the risks, some of which are subsidized by the government.

While the United States is the world's largest exporter of agricultural products, exporting 113.7 million metric tons valued at nearly $49.5 billion for fiscal year 2000, the instability of export demand is a major source of financial risk to farmers and agribusinesses. A strong dollar relative to the currencies of several large importers and large global supplies of most commodities contributed to a 10.6 percent decline in U.S. agricultural exports from 1995 to 2000.

The export value of high-value agricultural products now exceeds that of bulk commodities. Oilseed and oilseed products, however, remain the single largest value component of agricultural exports. Wheat and rice depend on export markets to take in excess of 40 percent of production, compared with 36 percent for soybeans.

Production agriculture is a natural-resource-based industry. Farming depends on land and water whose proper stewardship is critical to the future productivity of agriculture. The use and condition of the nation's land and water resources also are important to the nonfarm economy and population. Farmers have a direct interest in soil conservation, which provides long-term returns, although short-term market forces may encourage soil depletion over conservation. Federal assistance and incentive programs have been implemented to encourage conservation. Farmland preservation is largely a state and local government and private sector initiative. Increasingly, irrigated agriculture's large use of water, especially consumptive use, is becoming a constraint on competing water uses. Agriculture is challenged to avoid being a source of water pollution from both crop chemicals and livestock waste. Water quality improvement efforts use both incentive programs and regulatory constraints.

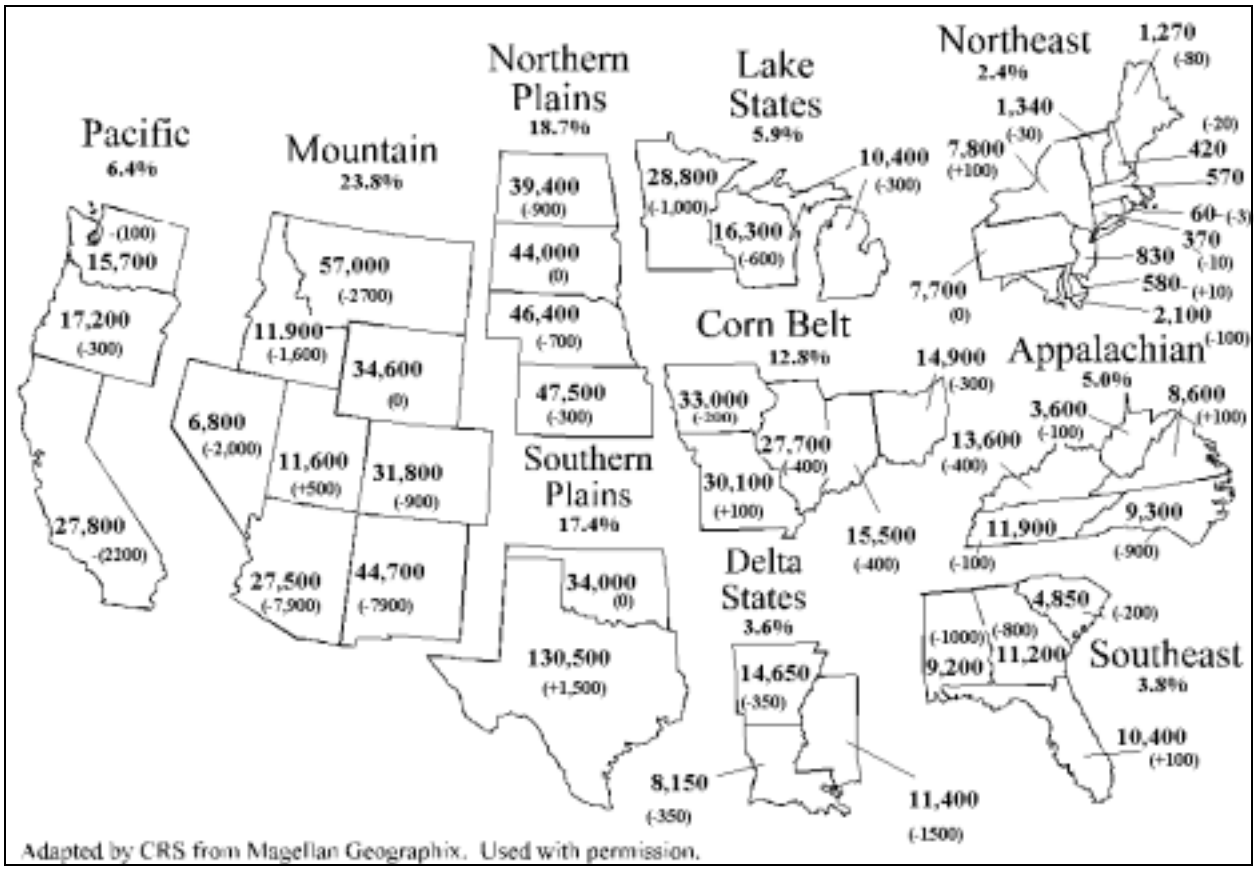
Most data in this report is from agencies of the U.S. Department of Agriculture, including the Economic Research Service, the National Agricultural Statistics Service, the Foreign Agricultural Service, the Farm Service Agency, the Natural Resources Conservation Service, the Risk Management Agency, and the Food and Nutrition Service.

Farm Numbers and Size

- The National Agricultural Statistics Service (NASS) estimated that there were about 947.3 million acres of land divided among the nation's 2.19 million farms in 1999. Since 1995, the number of farms has increased from 2.07 million and the amount of farmland has decreased from 972.2 million acres. The increase in the number of farms since 1995 is attributable to a continued rise in the number of small farms. In 1999, states west of the Mississippi River accounted for 66 percent of the land in farms, but only 36 percent of the nation's farms in 1999. The regions of the eastern United States accounted for 11 percent of the farmland, but 28 percent of the farms.

Acreage (1,000) in Farms by State, Regional Shares (%), and Change since 1995 of Total U.S. Farmland, 1999

(Data from USDA-NASS, Farms and Land in Farms, February 2000)



- In 1999, NASS counted about 2.19 million farms (up from 2.07 million in 1995), where a farm is defined as selling $1,000 or more in agricultural products per year. Among farms, there is a wide diversity in size, commodity specialization, geographic location, and financial status. Nationally, farm size averages 432 acres, a decrease from 469 acres in 1995.

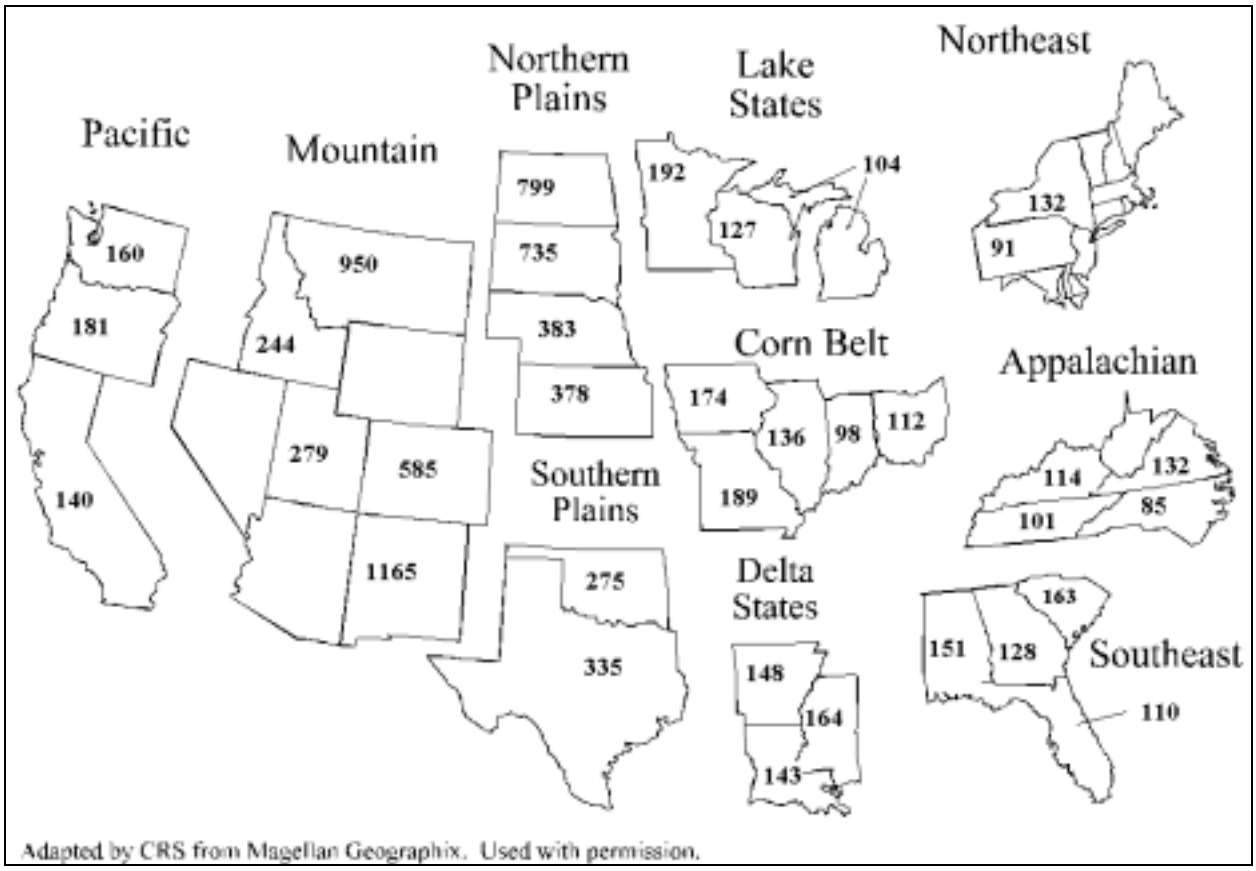
Number of Farms by State, Average Farm Acreage by State and Region, and Regional Share of Farms (%), 1999

(Data from USDA-NASS, Farms and Land in Farms, February 2000)

Adapted by CRS from Magellan Geographix. Used with permission.

- Nationally, about 1.85 million farms (84.5 percent of all farms) had sales below $100,000 in 1999. The average size of farms in this sales category was 228 acres. In contrast, 1.7 million farms (84 percent), with an average size of 265 acres, had sales below $100,000 in 1995.

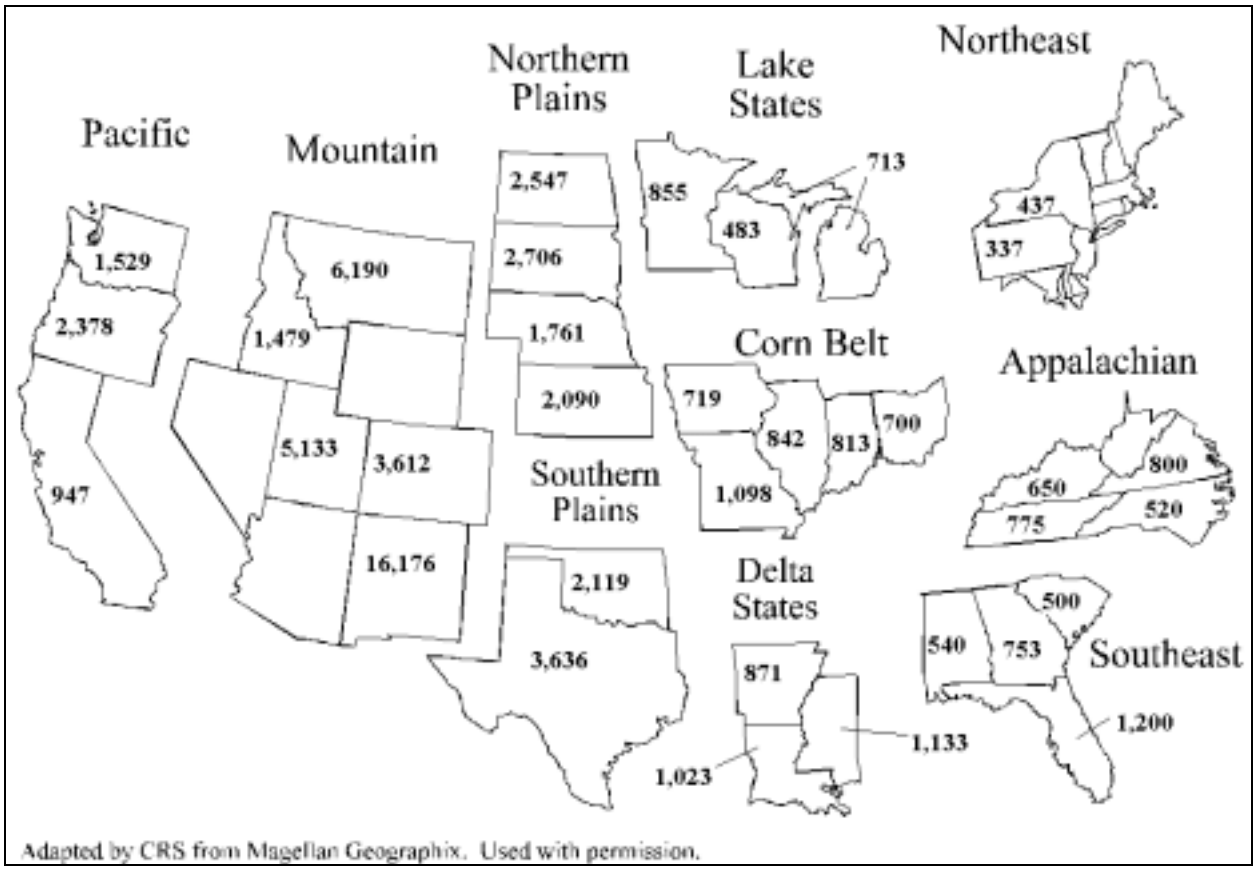
Average Size of Farms with Annual Sales below $100,000
(Data not available for all states)



Adapted by CRS from Magellan Geographix. Used with permission.

- In 1999, 358,100 farms (16 percent) had sales of $100,000 and above. The average size of these farms was 1,469 acres, more than 6.4 times larger than farms with sales below $100,000. In 1995, 333,700 farms (16 percent) averaging 1,566 acres had sales of at least $100,000.

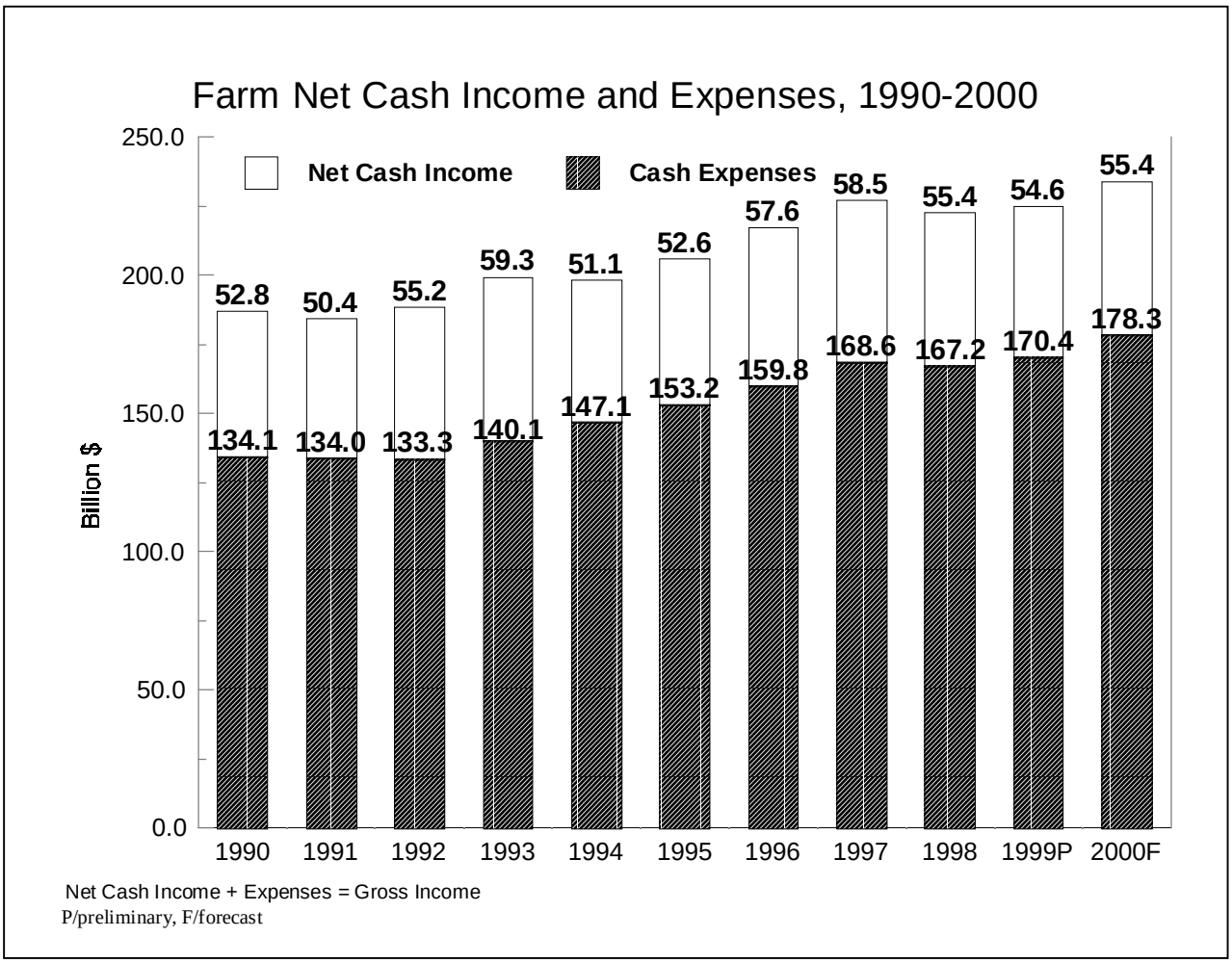
Average Farm Size with Annual Sales of $100,000 and Above
(Data not available for all states)



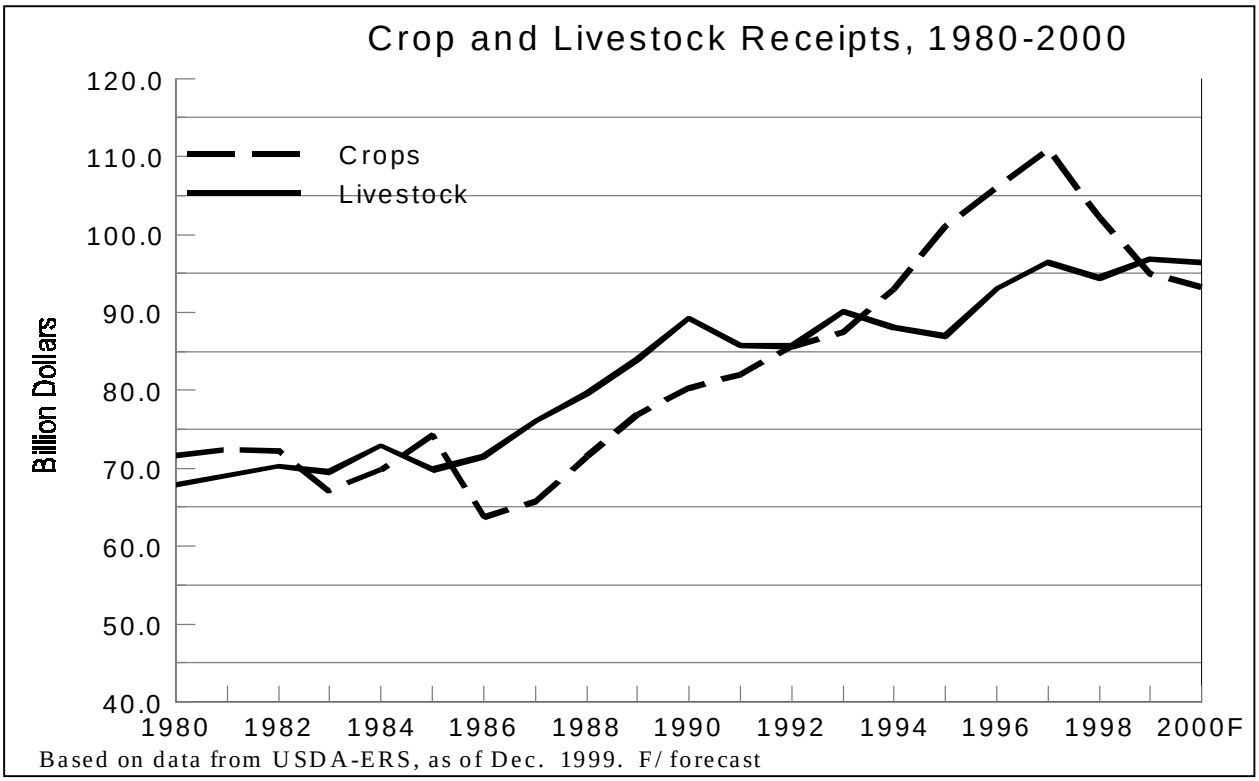
Adapted by CRS from Magellan Geographix. Used with permission.

Net Cash Farm Income and Expenses

- In September 2000, USDA's Economic Research Service (ERS) estimated net cash farm income for 2000 at $55.4 billion. This is down $2.2 billion from 1996, a decrease of 3.8 percent. Without the added emergency payments enacted in June 2000, farm cash income would have been an estimated $48.3 billion, a decline of 16.1 percent from the 1996 level and lower than the 1990-1995 average of $53.6 billion. Cash expenses increased primarily as a result of increased fuel and oil prices. Net cash income was supplemented with emergency payments for the third consecutive year in 2000.



- The sources of farm cash income typically are divided into four categories: receipts from crop sales, receipts from livestock sales, income from other farm-related enterprises, and direct government payments.

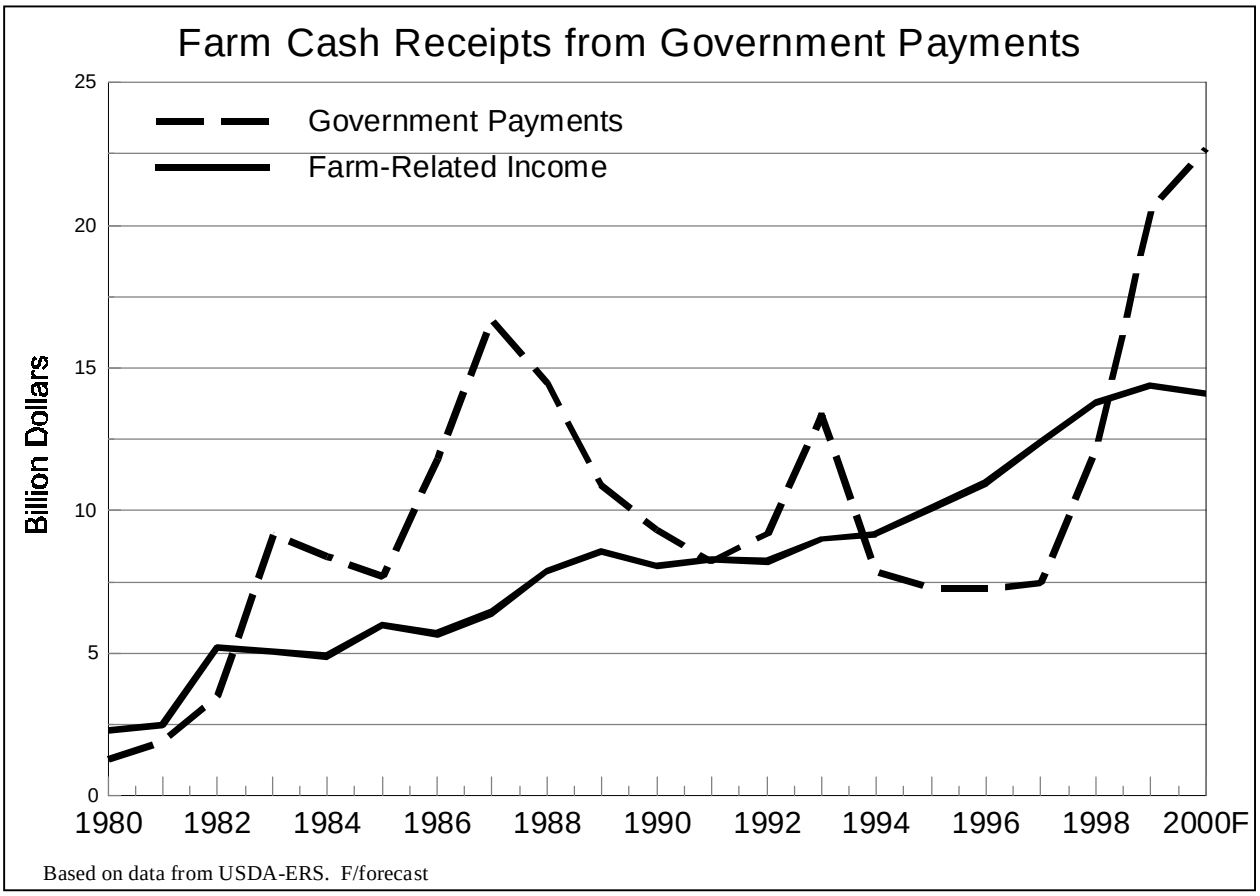


- Both **crop** and **livestock receipts** reached record high levels in 1997. Crop receipts had shown five years of increase, reaching $111 billion in 1997. Dramatically lower prices for feed grains, wheat, and soybeans (caused by a sharp drop in export demand in Asia, combined with globally large supplies) caused crop receipts to drop by $16 billion to a forecast level of $93.3 billion in 2000 (a decline of 16 percent from 1997 to 2000). Livestock receipts reached nearly $97 billion in 1997, dropped to $95 billion in 1998, rose back to an estimated $97 billion in 1999, and are forecast to remain at $97 billion in 2000.

- Besides selling crops and livestock, farms generate income from other activities. Examples of farm-related income include custom work, machine hire, recreational activities, and forest product sales. **Farm-related income** was estimated to reach $14.4 billion in 1999, but is forecast to decline to $14.1 billion in 2000.

- **Direct government payments** consist of income support payments (now called contract payments and marketing loan deficiency payments) to producers of feed grains, wheat, cotton, and rice; payments made on cropland enrolled in the long-term Conservation Reserve Program; cost-share assistance for soil and water protection measures; crop insurance subsidies; emergency payments; and payments from other programs. With enactment of the 1996 farm bill, "production flexibility contract

payments" replaced "target price deficiency payments" as the income support program for producers of the major grain crops and cotton. The emergency assistance legislation of October 1999, along with loan deficiency payments, raised direct government payments to an estimated $20.6 billion in 1999 (a 68 percent increase over 1998). Direct government payments are forecast at $23.3 billion in 2000, an increase over 1999 caused by emergency assistance legislated in June 2000.

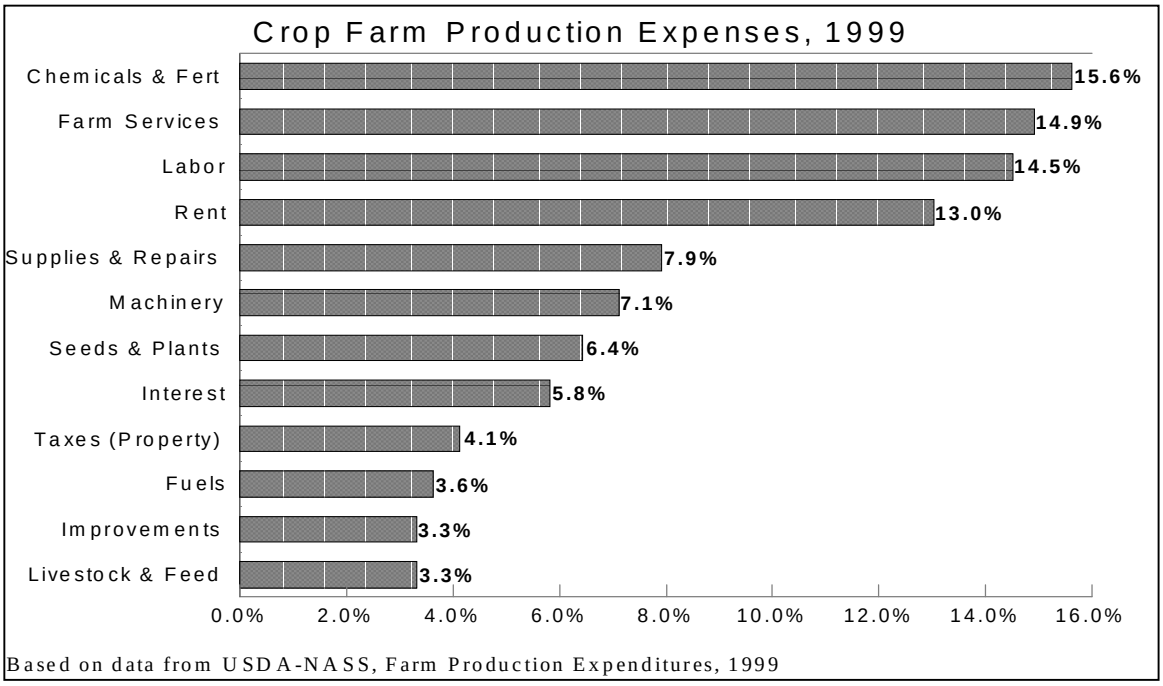


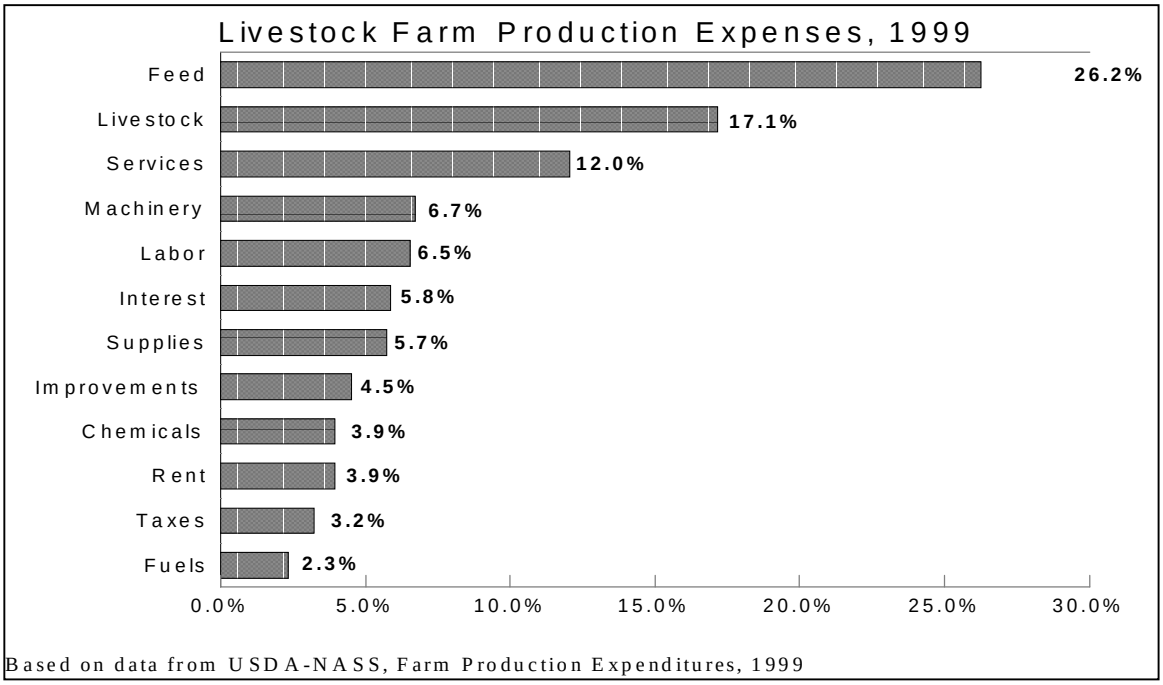
- Farm cash production expenses are forecast by ERS at $178.3 billion for 2000. This is nearly a $20 billion increase since 1996.

- NASS data on 1999 farm production expenditures characterize the various inputs that go into crop and livestock production. On average, total expenses were $100,166 on crop farms, and $71,688 on livestock farms. Rent's share of production expenses declined from 15 percent in 1997 to 13 percent in 1999. The remaining expense categories remained relatively unchanged.

- The composition of expenditures differs substantially between crop and livestock farms. Crop farms pay a substantial amount for chemicals and fertilizer (approximately16 percent) and rent (approximately 13 percent). Large proportions of the expenses on livestock farms are for the purchase of feed (26 percent) and

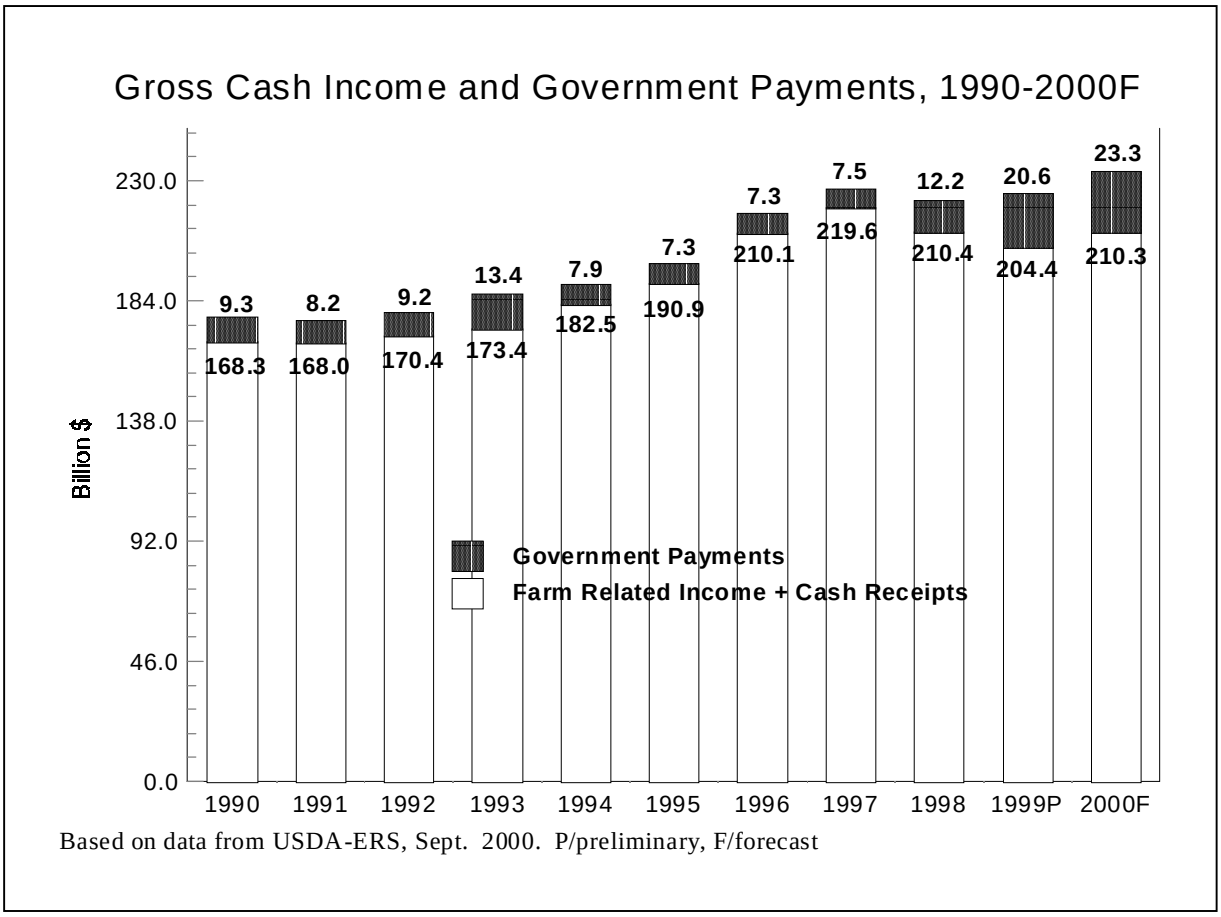
livestock (17 percent). The large purchases of feed grains from crop producers often puts crop and livestock farms in contrasting income situations. When the price of feed from crop farms is high (raising crop farm revenues), production costs for livestock increase. Feed expenses declined by three percent from 1997, a reflection of lower feed grain prices, while expenses for livestock increased by more than one percent.





Government Payments

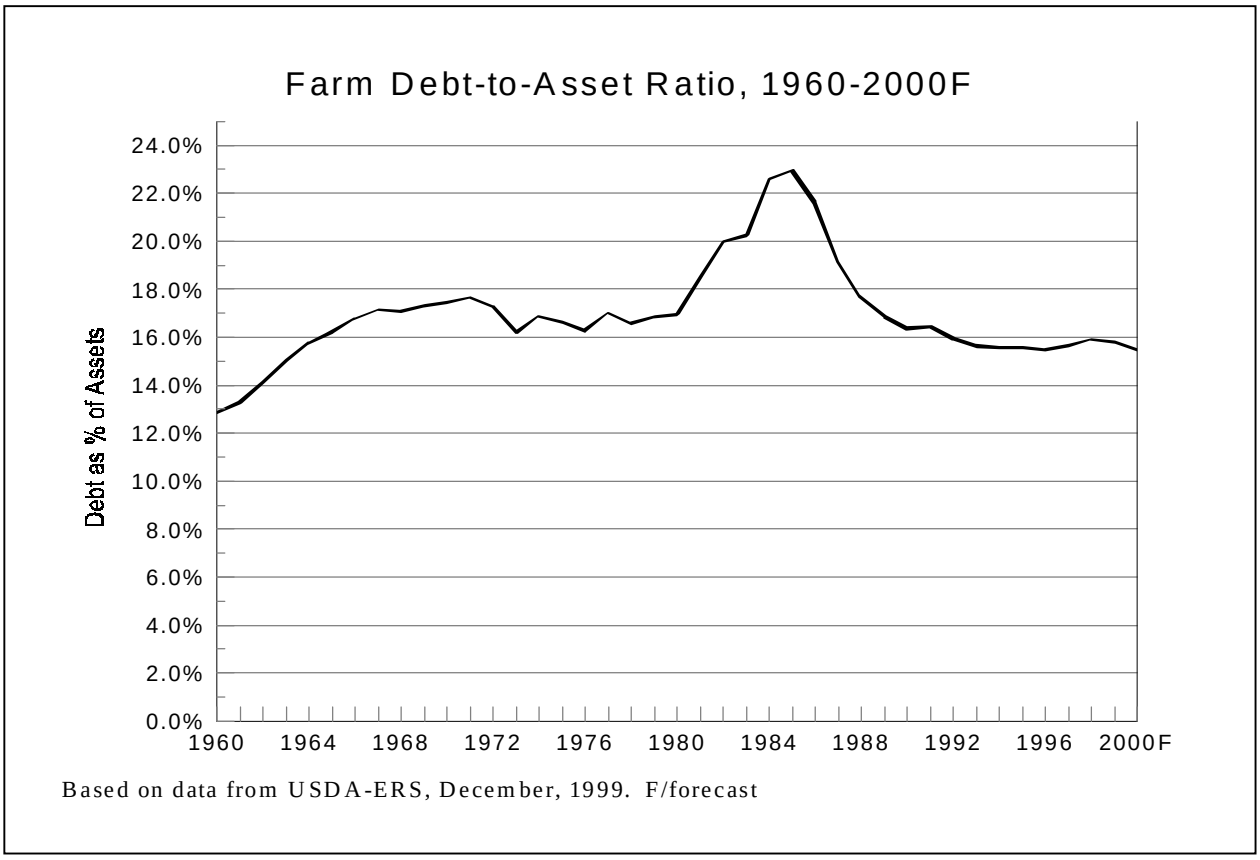
- Including direct government payments, gross cash income increased an estimated $11.3 billion from 1999 to 2000. Gross cash income of $233.6 billion in 2000, as estimated by ERS, is higher than any previous year, a result of $23.3 billion in direct government payments. Direct government payments are not distributed evenly among all farms. They go predominately to farms producing feed grains, wheat, rice, and cotton.



Based on data from USDA-ERS, Sept. 2000. P/preliminary, F/forecast

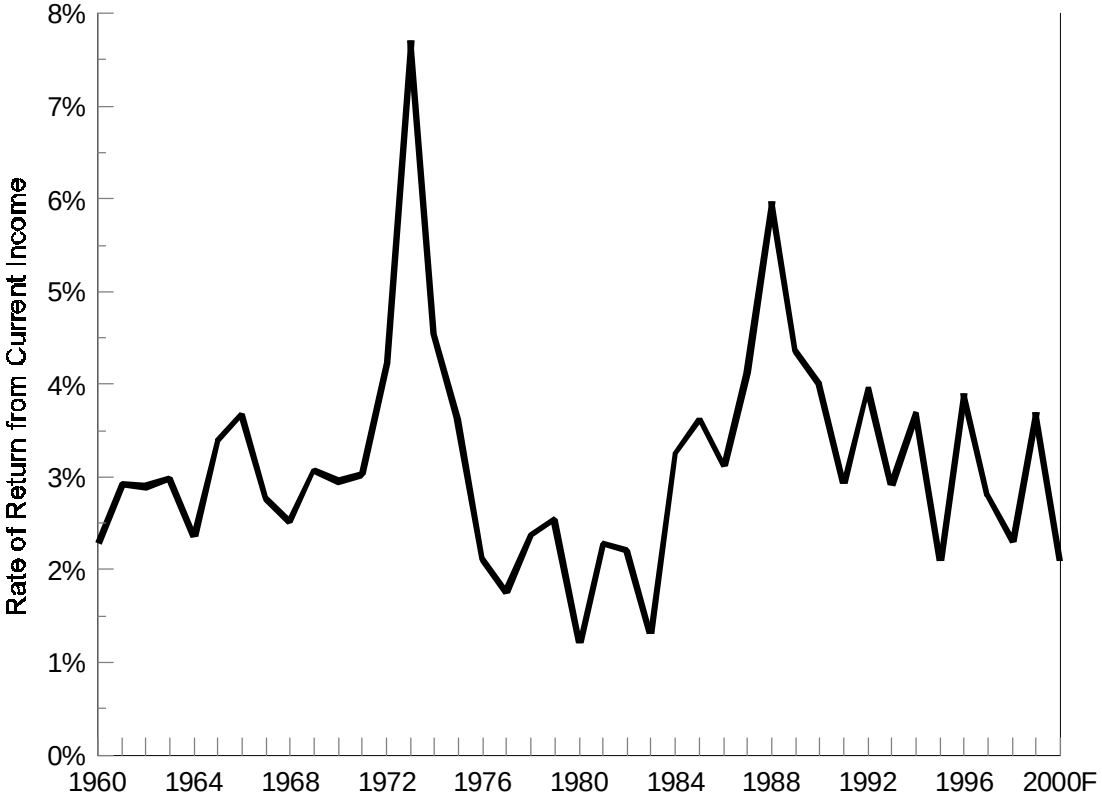
Farm Solvency and Profitability Ratios

- The debt-to-asset ratio is a measure of solvency. It compares the total debt to all farm business assets against which it is pledged. ERS forecasts the 2000 value of all farm assets, real estate, and non-real estate at $1,134.8 billion compared to farm debt of $176.4 billion. A debt-to-asset ratio of 15.5 percent would be lower than any year since the early 1960s and reflects a farm sector in a comparatively good position to make investments or to weather low commodity prices.



Based on data from USDA-ERS, December, 1999. F/forecast

- The rate return on assets from current income (including government payments) is a common measure of farm profitability. ERS forecasts returns in 2000 as 2.1 percent, down from 3.7 percent in 1999 and lower than the average of 3.4 percent from 1990 to 1999.



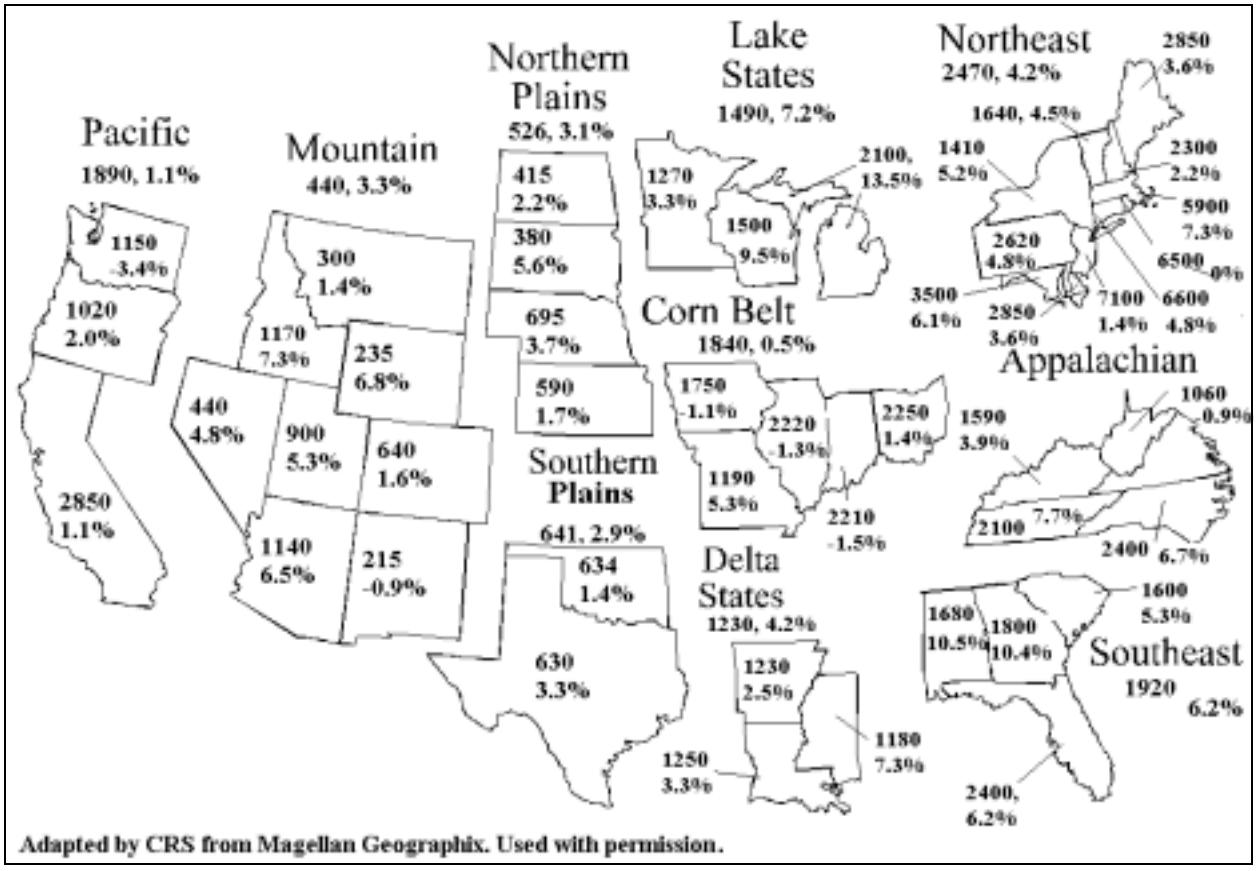
Based on data from USDA-ERS, December 1999. F/forecast

Farmland Values and Rental Rates

- When farming is profitable, the gains typically are capitalized into land and other fixed assets. Farm real estate values have risen steadily since 1987 although commodity prices have fluctuated dramatically, nearing historic lows in 1999 and 2000. The value of U.S. farm real estate (including land and buildings) rose 2.9 percent during 1999, reaching $1,050 per acre on January 1, 2000, according to the USDA. The Lake States region showed the largest rise, increasing 7.2 percent to $1,490 per acre. U.S. farmland values were, on average, higher in 1999 ($1,050 per acre) than in 1997 ($1,000 per acre), but the Appalachian, Northeast, and Corn Belt regions experienced a decline in farmland value during that period.

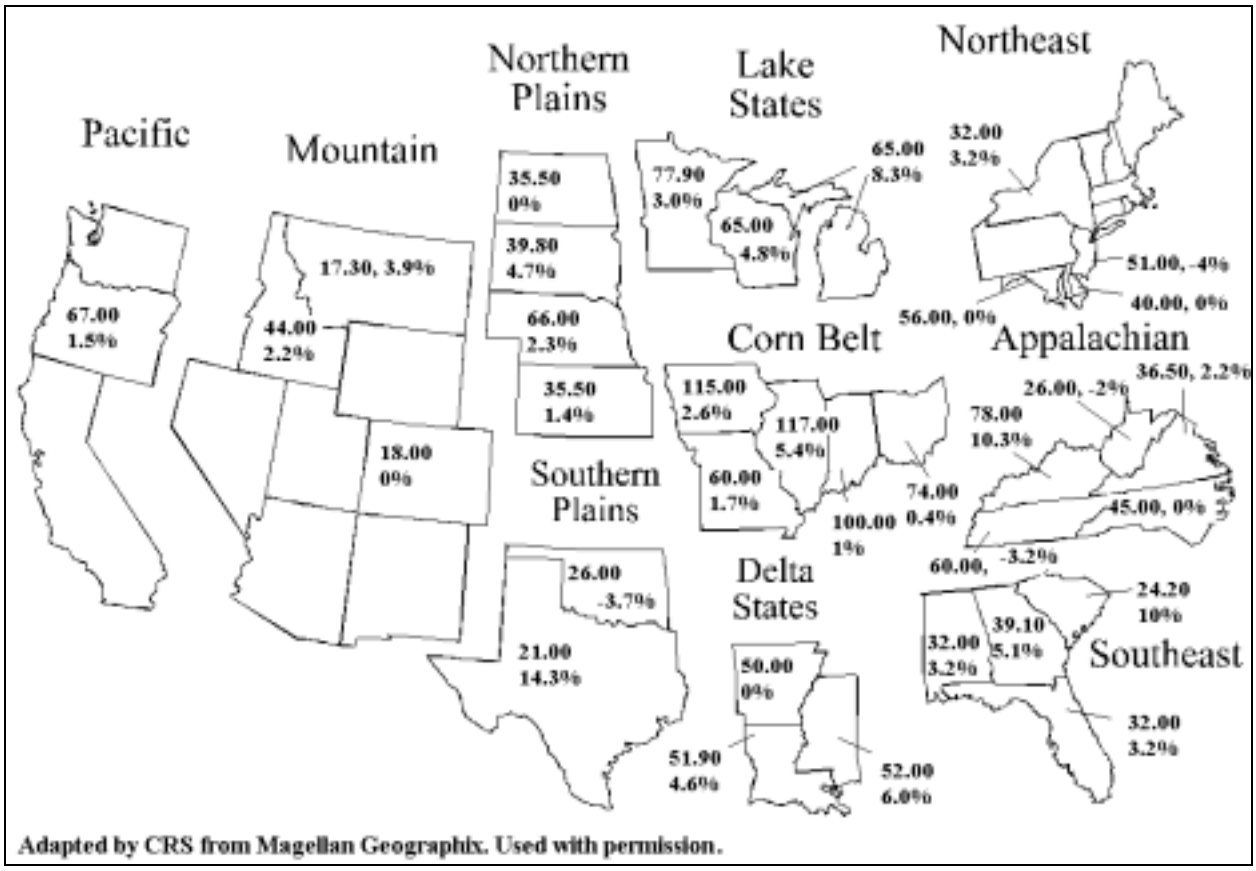
Farmland Values, January 2000 (Dollars Per Acre, % Increase/Decrease, 1999 to 2000)

(Data from USDA-NASS, Agriculture Land Values, March 2000)



- The USDA 2000 survey of cash rent shows increases from the previous year in most, but not all, surveyed states. The rental rates are also generally higher than when surveyed in 1997. Annual rental rates for nonirrigated cropland show a wide range among states, reflective of the differing crops and productivity of the land.

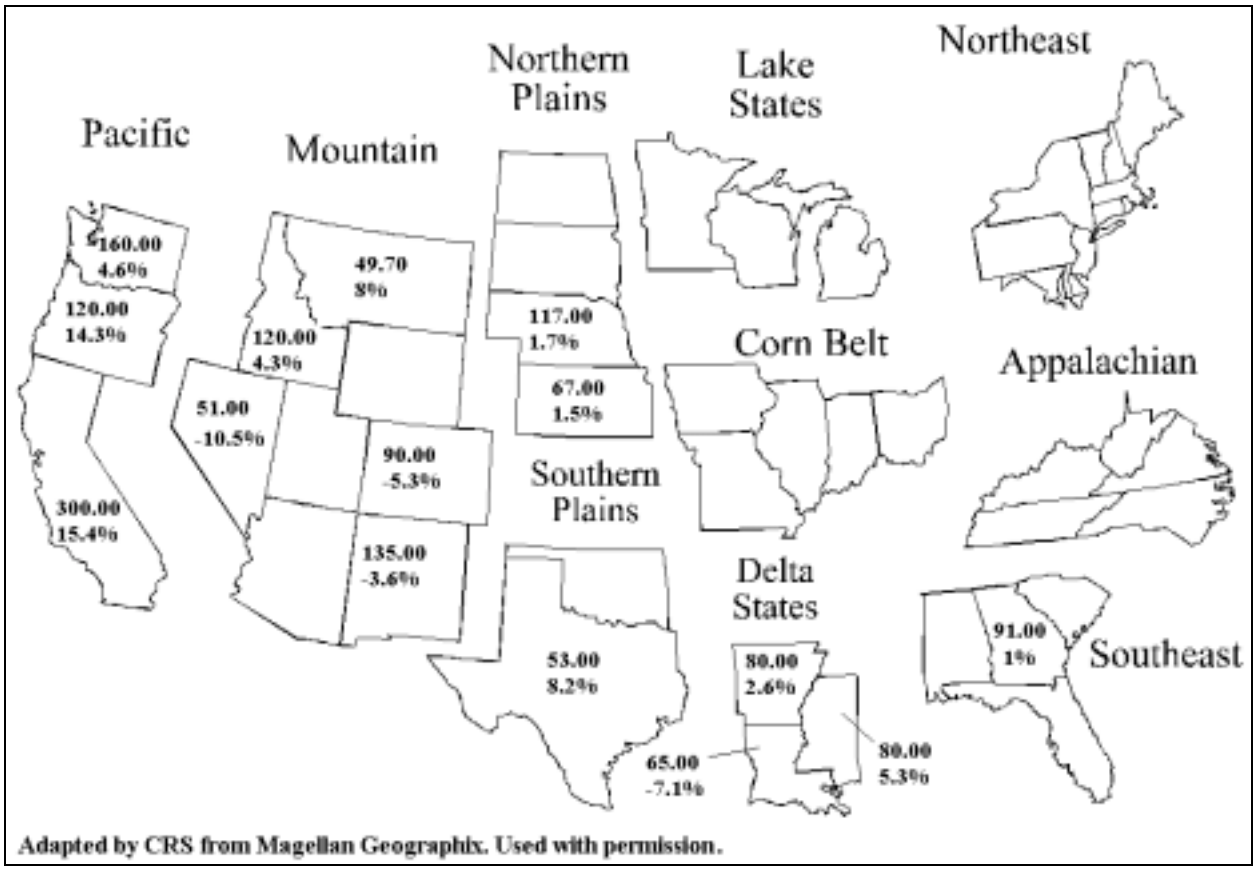
Nonirrigated Cropland Cash Rent, January 2000
Dollars per Acre, % Increase/Decrease, 1999 to 2000 (Data not available for all states)
(Data from USDA-NASS, Agriculture Cash Rents, July 2000)



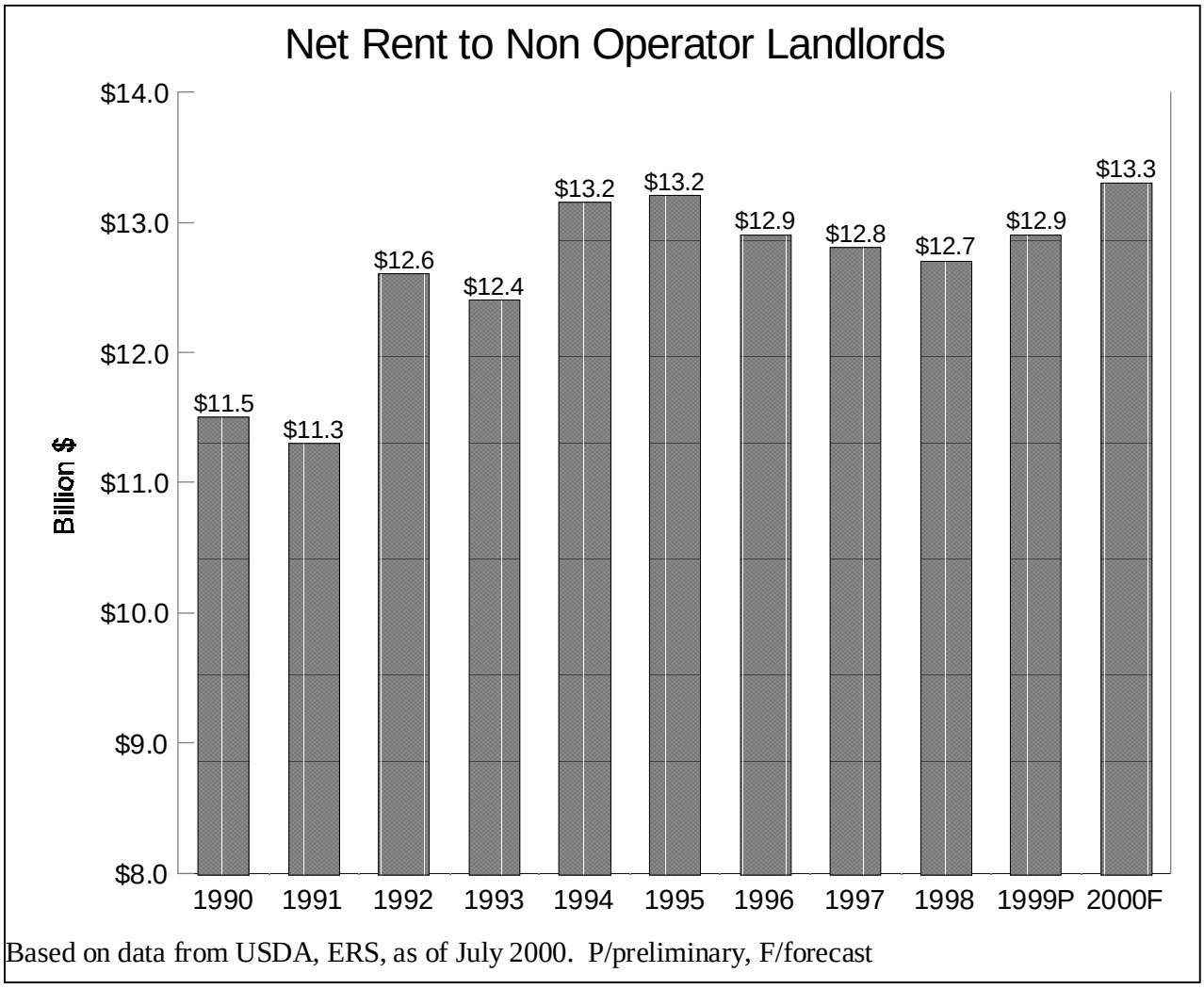
Adapted by CRS from Magellan Geographix. Used with permission.

- Irrigated cropland cash rent levels in 2000 varied widely compared with 1999; however, cash rental rates for all states reported are above 1997 levels.

Irrigated Cropland Cash Rent, 2000
Dollars per Acre, % Increase/Decrease, 1999 to 2000 (Data not available for all states)
(Data from USDA-NASS, Agricultural Cash Rents, July 2000)



- National farm cash income accounts maintained by ERS include net rent to non-operator landlords. Net rent reached a peak of $13.2 billion in 1996 and is forecast to reach a new high of $13.3 billion in 2000.

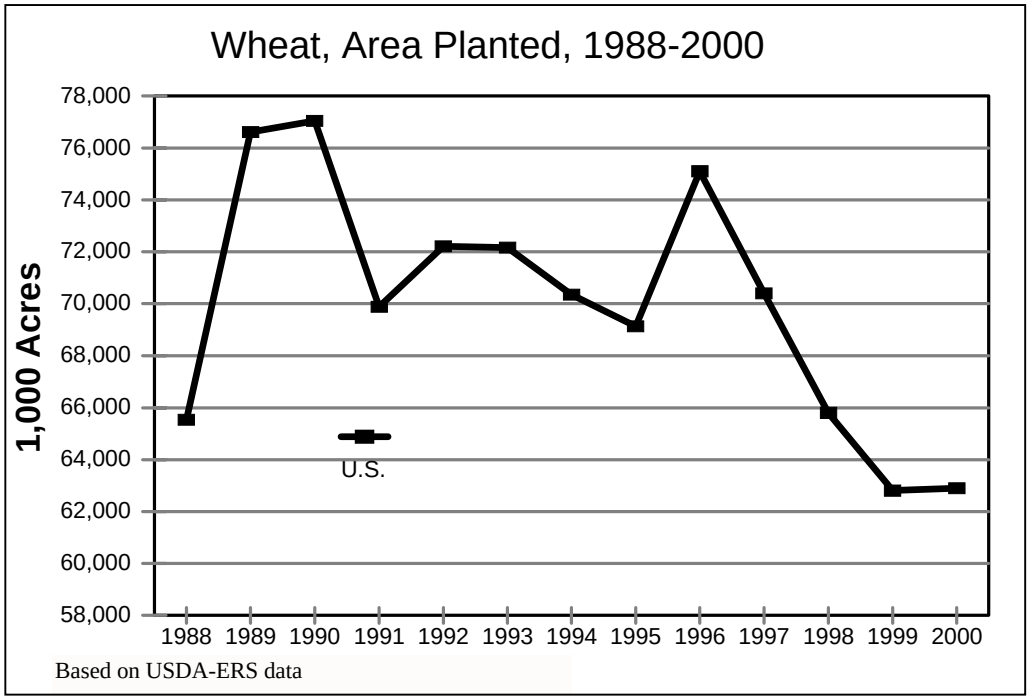


Based on data from USDA, ERS, as of July 2000. P/preliminary, F/forecast

Planting Flexibility

- The 1996 farm bill eliminated short-term acreage reduction programs (the Conservation Reserve Program remains a long-term land retirement program). This provision allows producers the freedom to plant any crop on contract acreage, with the exception of fruits and vegetables. Many factors contribute to producer planting decisions but the freedom to plant any crop on contract acreage gives the producer more options from which to choose than did previous legislation.

Wheat



- National planted acreage of wheat has declined 12.2 million acres, or 16.2 percent from 1996 to 2000. North Dakota, Kansas, Oklahoma, Texas, and Montana accounted for 49.6 percent of all planted acres in 2000.

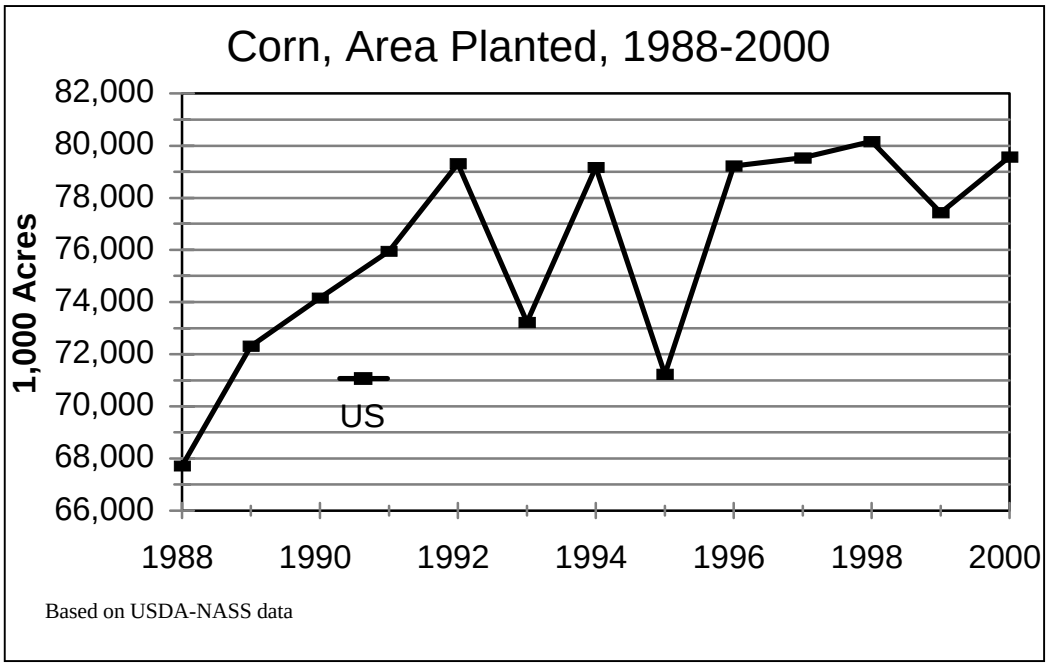
Wheat, Area Planted

State*	1996 Area Planted (000 acres)	1997 Area Planted (000 acres)	1998 Area Planted (000 acres)	1999 Area Planted (000 acres)	2000 Area Planted (000 acres)
1. North Dakota	12,680	11,625	9,770	9,410	10,410
2. Kansas	11,800	11,400	10,700	10,000	9,800
3. Oklahoma	6,800	6,700	6,600	6,400	6,100
4. Texas	6,000	6,300	6,100	6,200	6,000
5. Montana	6,640	6,150	5,650	5,560	5,250
All Other	*31,185*	*28,237*	*26,961*	*25,244*	*25,386*
TOTAL	75,105	70,412	65,871	62,814	62,946

**Rank based on 2000 plantings*

- The largest decline for wheat acres has been in Kansas where acreage has fallen by 2 million acres, and in North Dakota where acres have dropped by 2.3 million acres. Kansas planted wheat acreage is at the lowest level since 1971. Corn and soybeans each picked up portions of the idled wheat acres; Kansas has increased both corn and soybean acres by 900,000 acres each while North Dakota has increased soybean plantings by nearly 1.3 million acres.

Corn



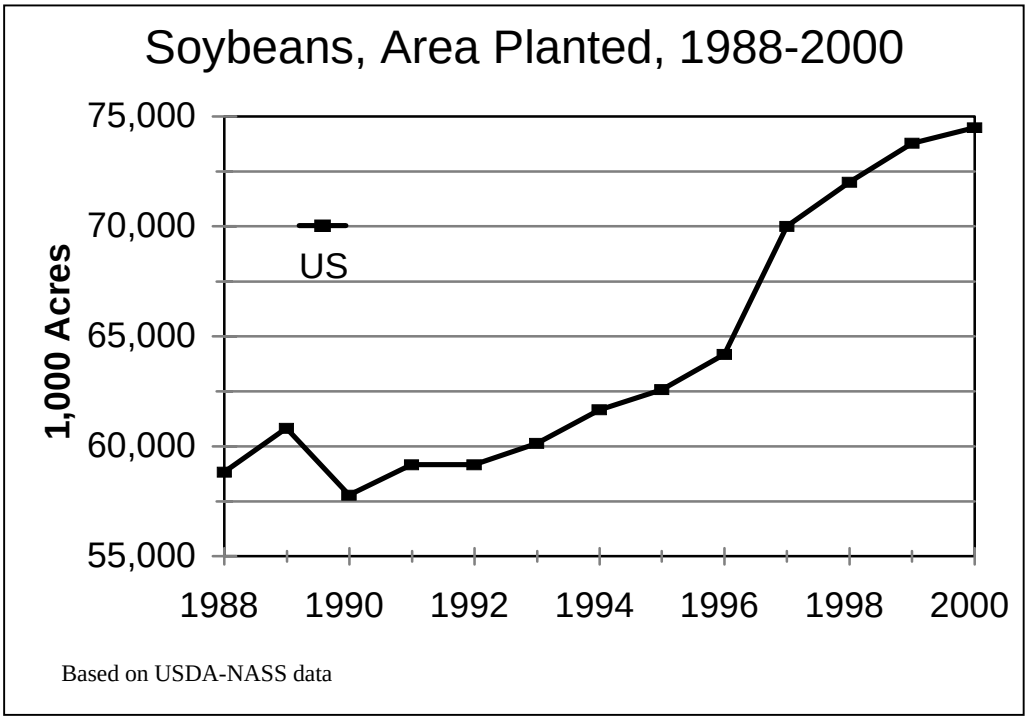
- From 1996 to 2000, national corn acreage has increased by 350,000 acres, or 0.4 percent. For 2000, Iowa, Illinois, Nebraska, Minnesota, and Indiana account for about 56 percent of national acres planted to corn. Iowa, Minnesota, and Nebraska have dropped a total of 900,000 acres, Indiana has gained 100,000 acres, and Illinois gained 200,000 acres. The largest gain in corn acres comes from Kansas, picking up 900,000 acres from 1996 to 2000.

Corn, Area Planted

State*	1996 Area Planted (000 acres)	1997 Area Planted (000 acres)	1998 Area Planted (000 acres)	1999 Area Planted (000 acres)	2000 Area Planted (000 acres)
1. Iowa	12,700	12,200	12,500	12,100	12,300
2. Illinois	11,000	11,200	10,600	10,800	11,200
3. Nebraska	8,500	8,900	8,800	8,600	8,400
4. Minnesota	7,500	7,000	7,300	7,100	7,100
5. Indiana	5,600	5,900	5,800	5,670	5,800
All Other	*33,929*	*34,337*	*35,165*	*33,000*	*34,779*
TOTAL	79,229	79,537	80,165	77,431	79,579

**Rank based on 2000 plantings*

Soybeans



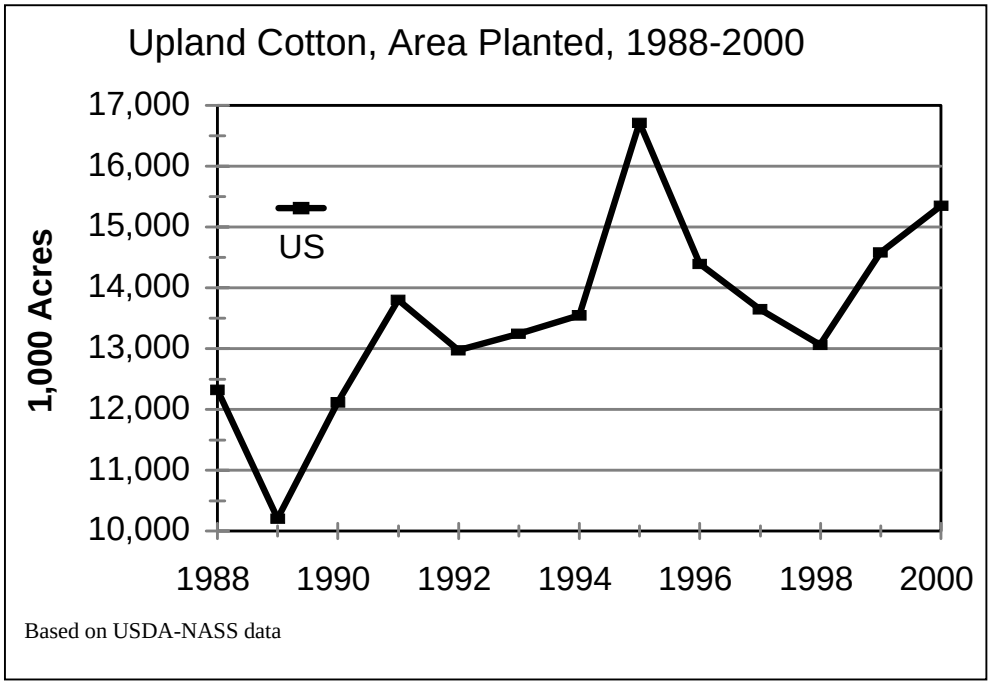
- Soybeans have shown the most change in planted acres from 1996 to 2000. National plantings have increased by 10.4 million acres, or 14 percent. Eleven states experienced a decline in acreage from 1996 to 2000 amounting to less than a million acres or approximately one percent of the total. New York and West Virginia had no reported planted acreage in 1996 but a combined total of 200,000 acres in 2000. The largest increase in plantings occurred in Iowa, Minnesota, and Missouri, each up by more than one million acres from 1996 to 2000.

Soybeans, Area Planted

State*	1996 Area Planted (000 acres)	1997 Area Planted (000 acres)	1998 Area Planted (000 acres)	1999 Area Planted (000 acres)	2000 Area Planted (000 acres)
1. Iowa	9,500	10,500	10,400	10,800	10,600
2. Illinois	9,900	10,000	10,600	10,600	10,300
3. Minnesota	6,000	6,600	6,900	7,000	7,200
4. Indiana	5,400	5,350	5,600	5,600	5,700
5. Missouri	4,100	4,900	5,100	5,400	5,150
All Other	*29,295*	*32,655*	*33,425*	*34,380*	*35,551*
TOTAL	64,195	70,005	72,025	73,780	74,501

**Rank based on 2000 plantings*

Upland Cotton



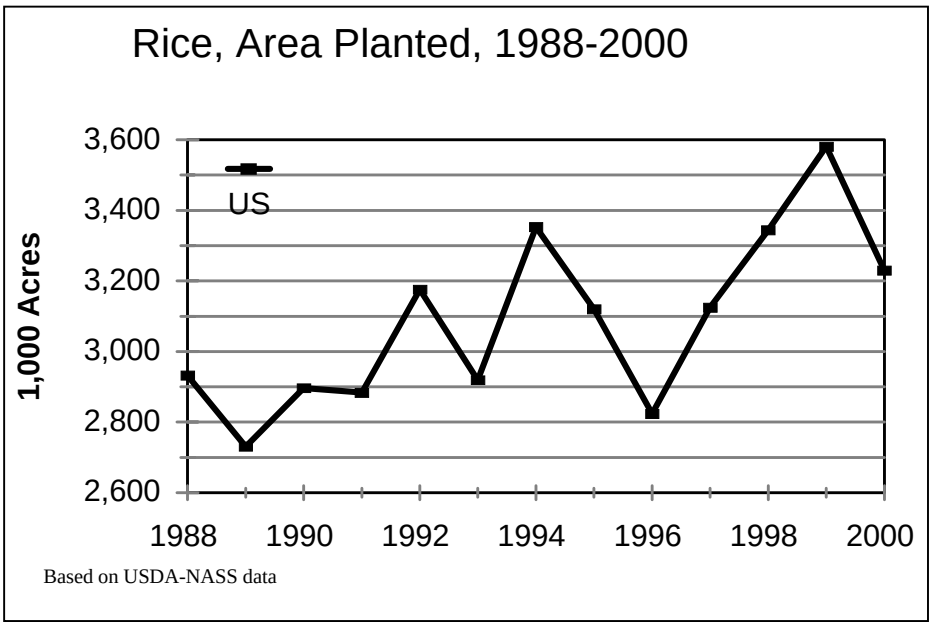
- National cotton acres have increased by nearly one million acres, or six percent, since 1996. Texas alone accounts for 600,000 acres of this increase, while acreage in Georgia, Mississippi, and North Carolina also have increased. Some states (included in the *All Other* category) such as Kansas, Minnesota, and South Carolina are increasing cotton production, as well. Arkansas and California both experienced a decrease in planted acreage from 1996 to 2000.

Cotton, Area Planted

State*	1996 Area Planted (000 acres)	1997 Area Planted (000 acres)	1998 Area Planted (000 acres)	1999 Area Planted (000 acres)	2000 Area Planted (000 acres)
1. Texas	5,700	5,500	5,650	6,150	6,300
2. Georgia	1,340	1,440	1,370	1,470	1,450
3. Mississippi	1,120	985	950	1,200	1,360
4. North Carolina	740	690	710	880	940
5. Arkansas	1,000	980	920	970	930
6. California	1,000	880	650	610	770
All Other	*3,494.5*	*3,173.0*	*2,814.3*	*3,304.0*	*3,600.0*
TOTAL	14,394.5	13,648.0	13,064.3	14,584.0	15,350.0

**Rank based on 2000 plantings*

Rice



- National rice acres have increased by a half million acres since 1996. Six states account for 100 percent of rice acreage, with Arkansas accounting for nearly half. Arkansas increased rice acreage by 270,000 acres, a 19 percent gain since 1996. California, Mississippi, and Missouri together have increased rice acres by 211,000 acres. Texas and Louisiana decreased rice acreage by 75,000 acres since 1996.

Rice, Area Planted

State*	1996 Area Planted (000 acres)	1997 Area Planted (000 acres)	1998 Area Planted (000 acres)	1999 Area Planted (000 acres)	2000 Area Planted (000 acres)
1. Arkansas	1,180	1,400	1,540	1,650	1,450
2. California	502	518	480	540	550
3. Louisiana	535	585	625	620	500
4. Mississippi	210	240	270	325	280
5. Texas	300	260	285	260	260
6. Missouri	97	122	145	186	190
TOTAL	2,824	3,125	3,345	3,581	3,230

**Rank based on 2000 plantings*

Production Flexibility Contracts

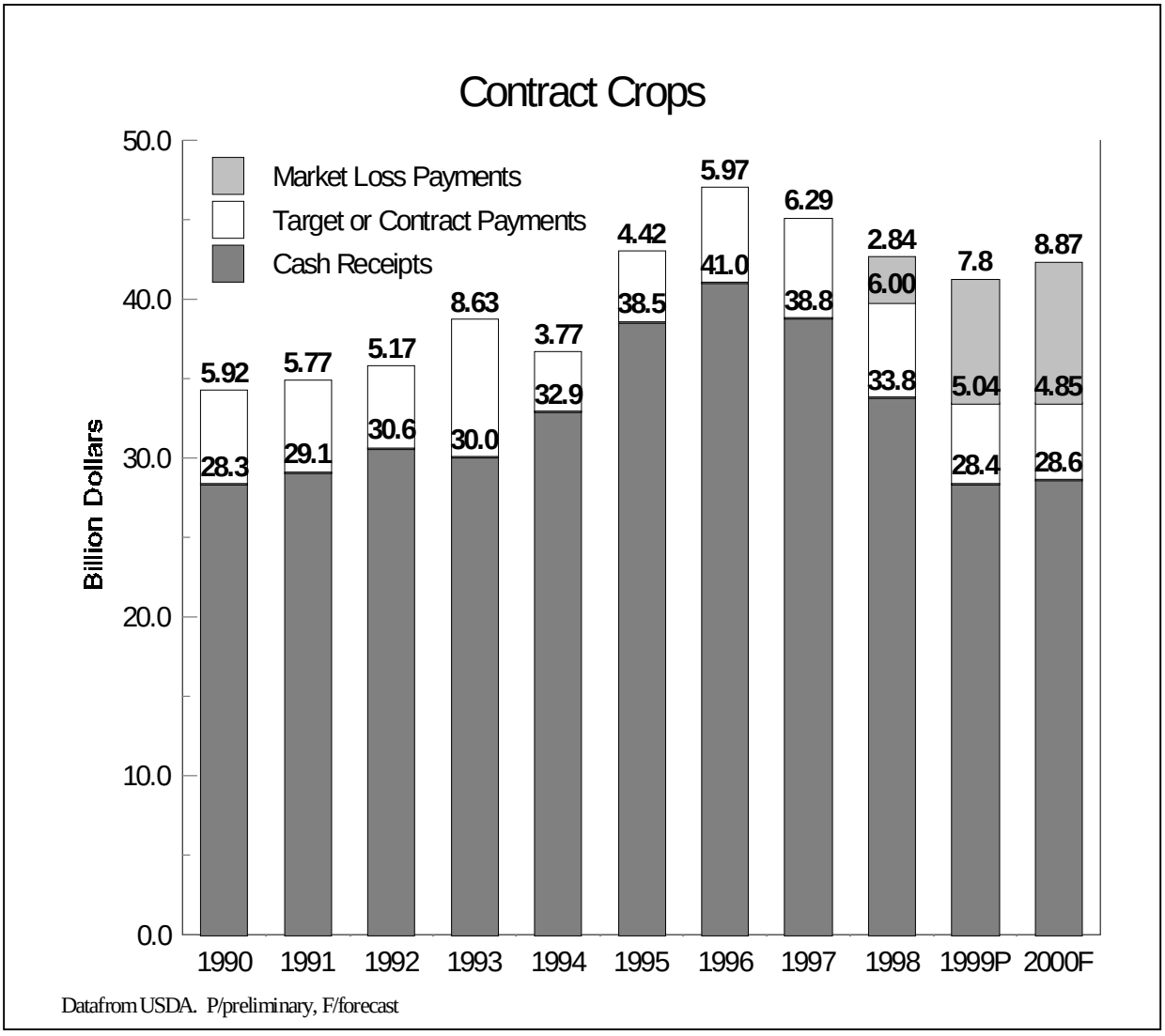
- Feed grain, wheat, rice, and cotton farm income support consists of production flexibility contract payments and non-recourse marketing loans. In 1996, according to the USDA, 99 percent of the eligible acreage was enrolled in production flexibility contracts. Under the contracts, participating farms receive fixed annual payments for crop years 1996 through 2002, if they comply with conservation requirements to protect highly erodible land. The size of payments for each farm is linked to individual commodity production requirements in place under previous law. Generally, however, farms are not now constrained in their crop-planting decisions.

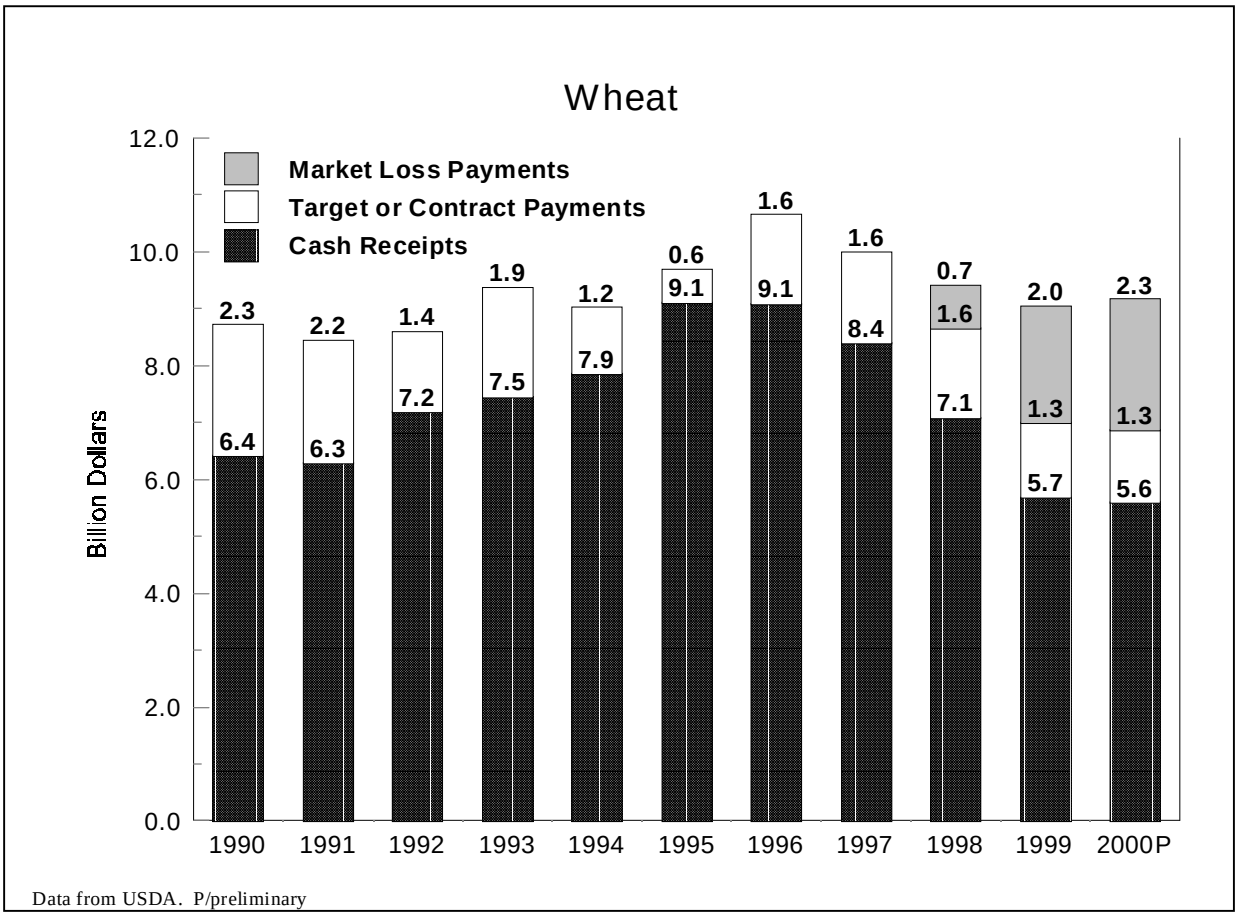
Production Flexibility Contract Payments,
Fiscal Years 1996-1997, Actual; Fiscal Years 2000-2002, Forecast

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
					Billion Dollars			
Corn	$1.7	$3.4	$2.6	$2.5	$2.3	$1.9	$1.8	$16.2
Sorghum	$0.2	$0.3	$0.3	$0.3	$0.3	$0.2	$0.2	$1.8
Barley	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1	$0.8
Oats	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.1
Total Feed Grains	$2.0	$3.8	$3.0	$2.9	$2.7	$2.2	$2.1	$18.9
Wheat	$1.9	$1.4	$1.5	$1.4	$1.3	$1.1	$1.0	$9.6
Cotton	$0.7	$0.6	$0.6	$0.6	$0.6	$0.5	$0.4	$4.0
Rice	$0.5	$0.5	$0.5	$0.5	$0.4	$0.3	$0.3	$3.0
Total	$5.1	$6.3	$5.6	$5.4	$5.0	$4.1	$3.8	$35.5

Data are from USDA-FSA 2000.

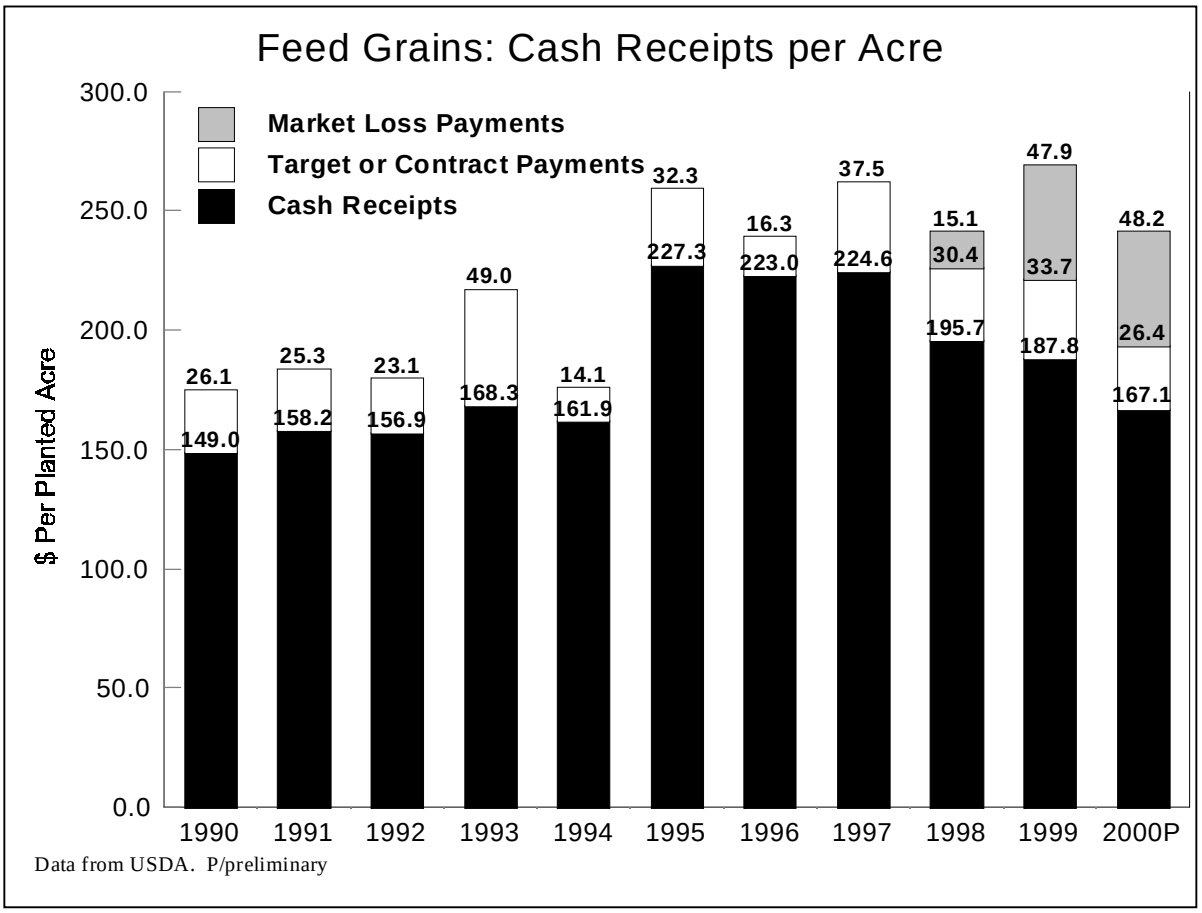
- Since 1996, income support payments to feed grain, wheat, cotton, and rice producers have on average amounted to 22 percent of total revenue for the contract commodities, reaching a peak of 32 percent in 2000. By commodity, average government support payments as a percent of total revenue from 1996 to 2000 are: feed grains, 20 percent; wheat, 26 percent; rice, 34 percent; and cotton, 16 percent. The following graph illustrates the cash receipts, target or contract payments, and market loss payments made for contract crops from the 1990 to 2000 calendar years.



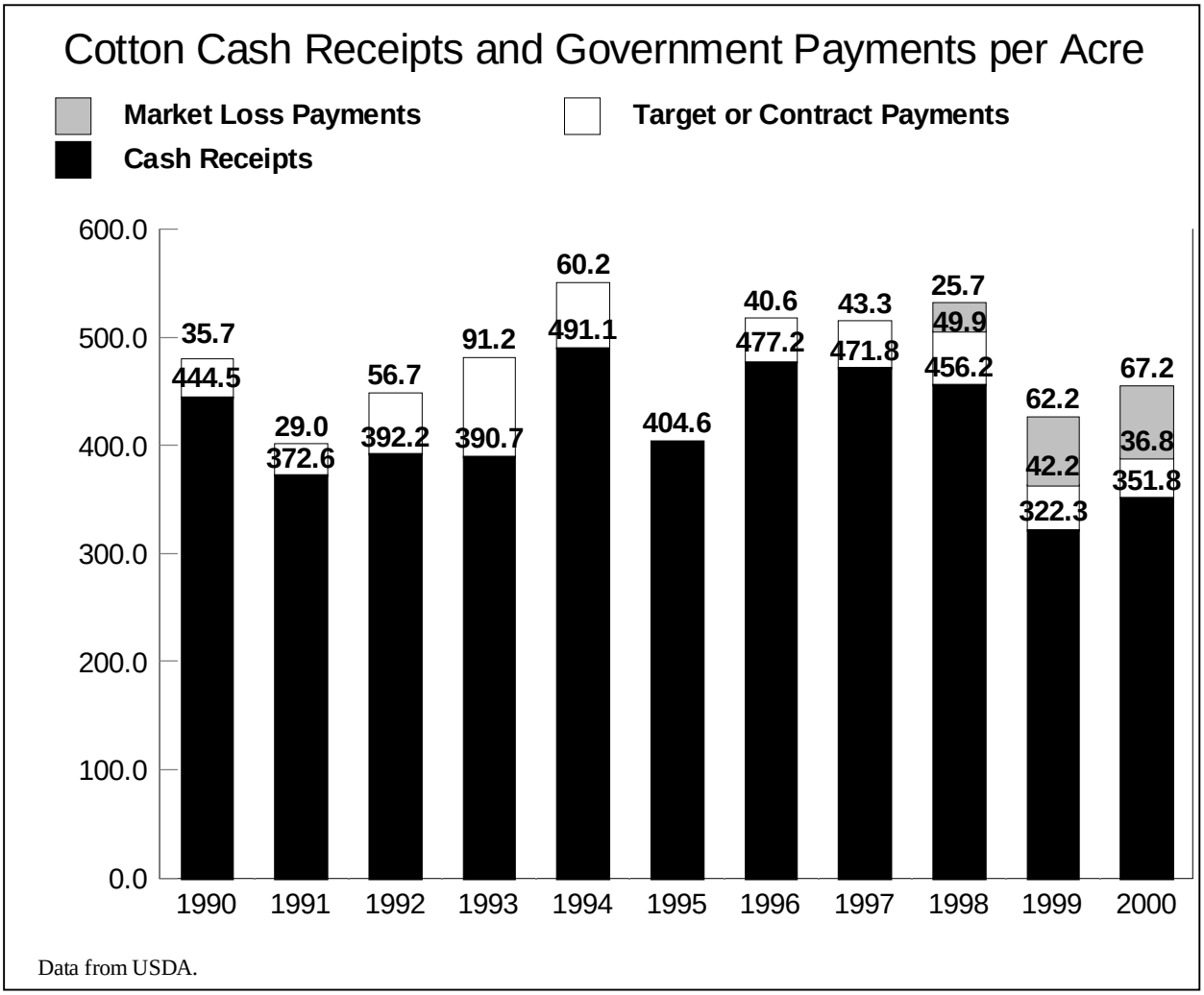


- The linkage between support payments and production of a particular crop was eliminated by the adoption of production flexibility contract payments in the 1996 farm bill. By commodity, therefore, the sum of cash receipts and contract payments is an indicator, but not necessarily an accurate measure, of farm receipts by commodity specialization. In other words, a farmer receiving cotton payments may be producing a different crop as allowed under the planting flexibility provisions of the law. Cash receipts for wheat have declined from $8.4 billion to $5.6 billion, with direct government payments increasing from $1.6 billion to $3.6 billion from 1996 to 2000. Direct government payments in 2000 accounted for approximately 39 percent of gross receipts for wheat producers.

- Feed grains (corn, sorghum, barley, and oats) cash receipts declined from $223.30 per acre to $167.10 per acre from 1996 to 2000. Direct government payments increased from $37.50 per acre to $74.60 per acre over the same period. Direct government support accounted for approximately 31 percent of gross receipts per acre for feed grains in 2000.

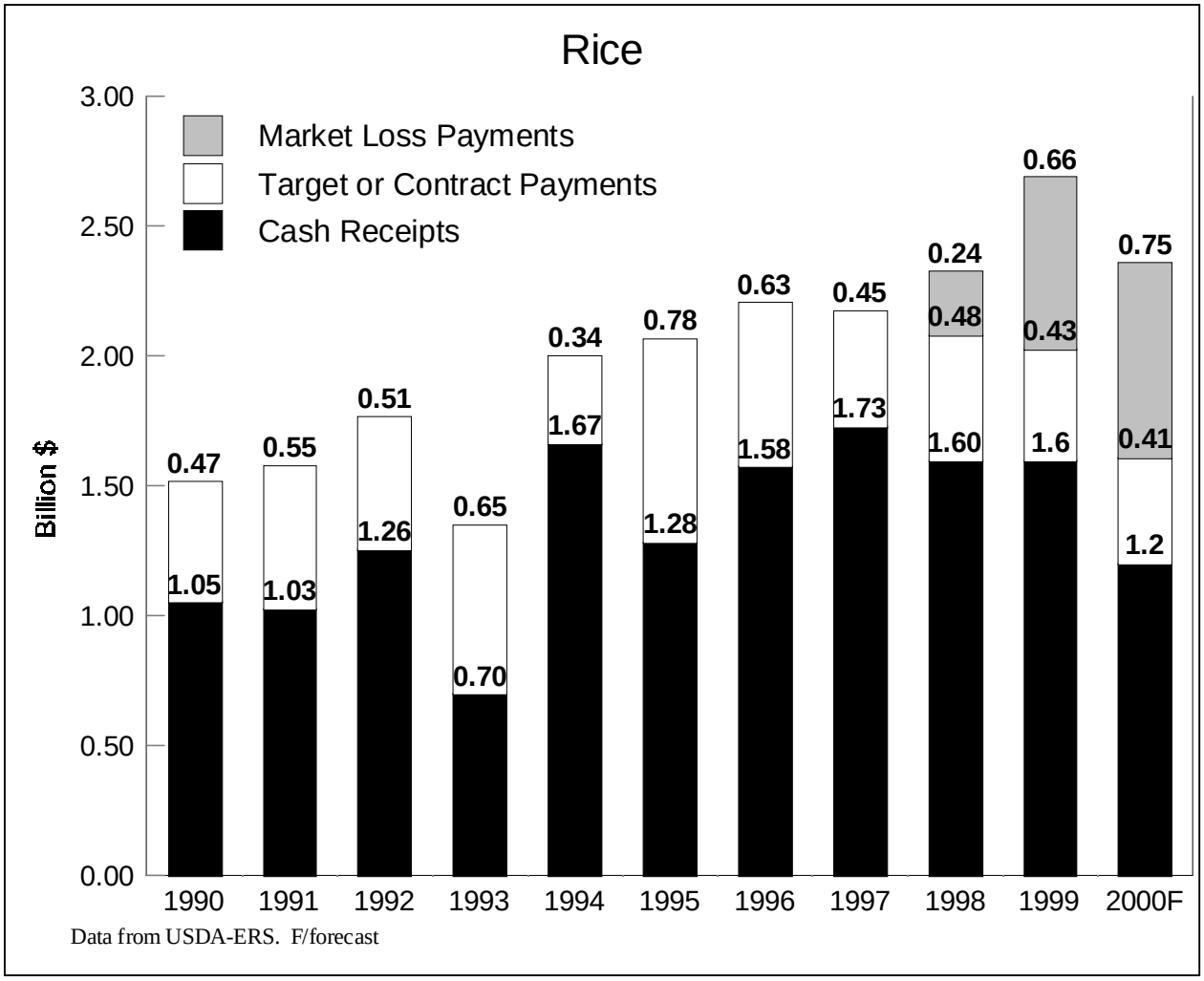


- Cotton cash receipts declined 26 percent per acre from 1996 to 2000. Direct government payments increased by 39 percent per acre during the period, accounting for approximately 23 percent of gross receipts in 2000.

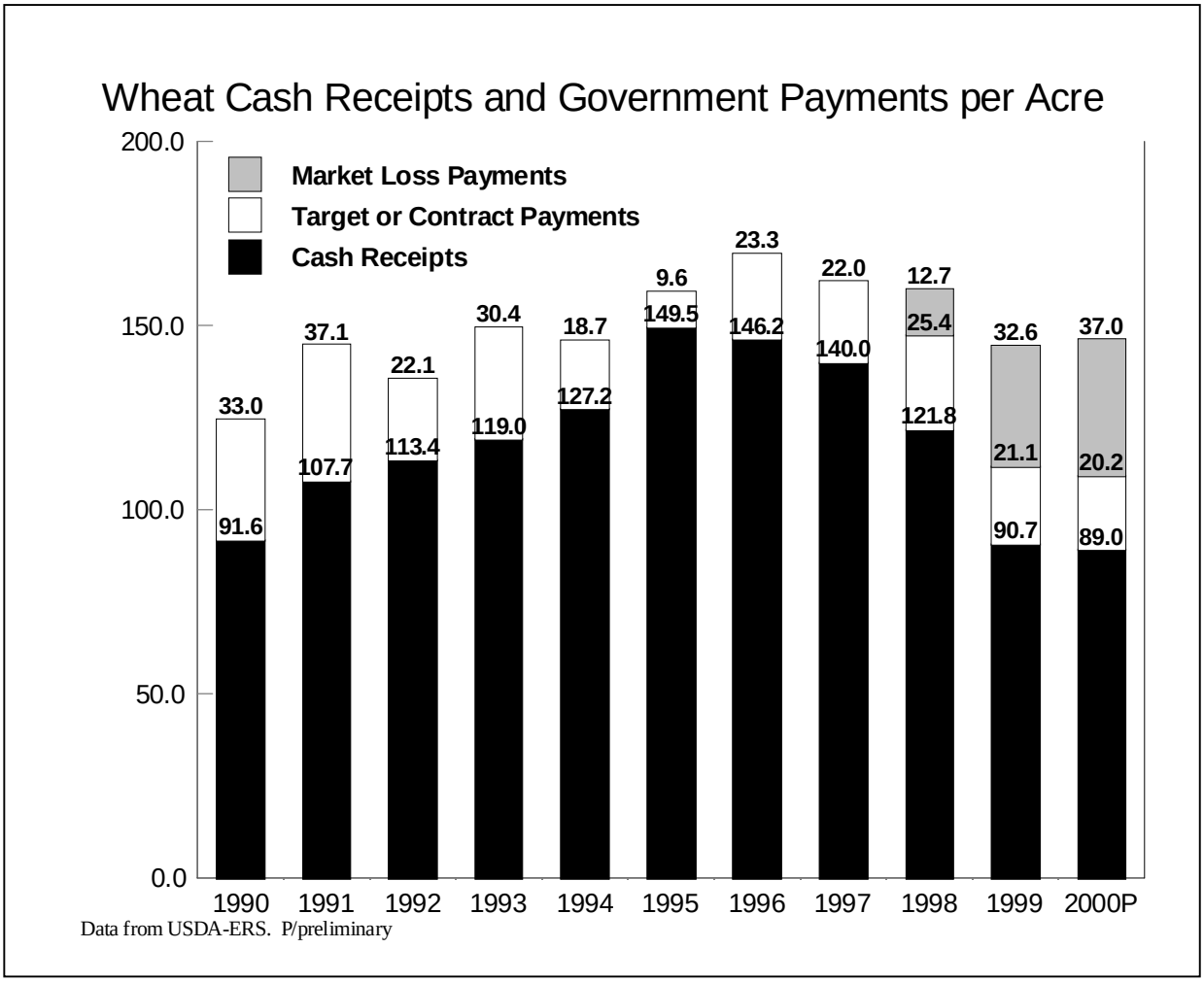


Data from USDA.

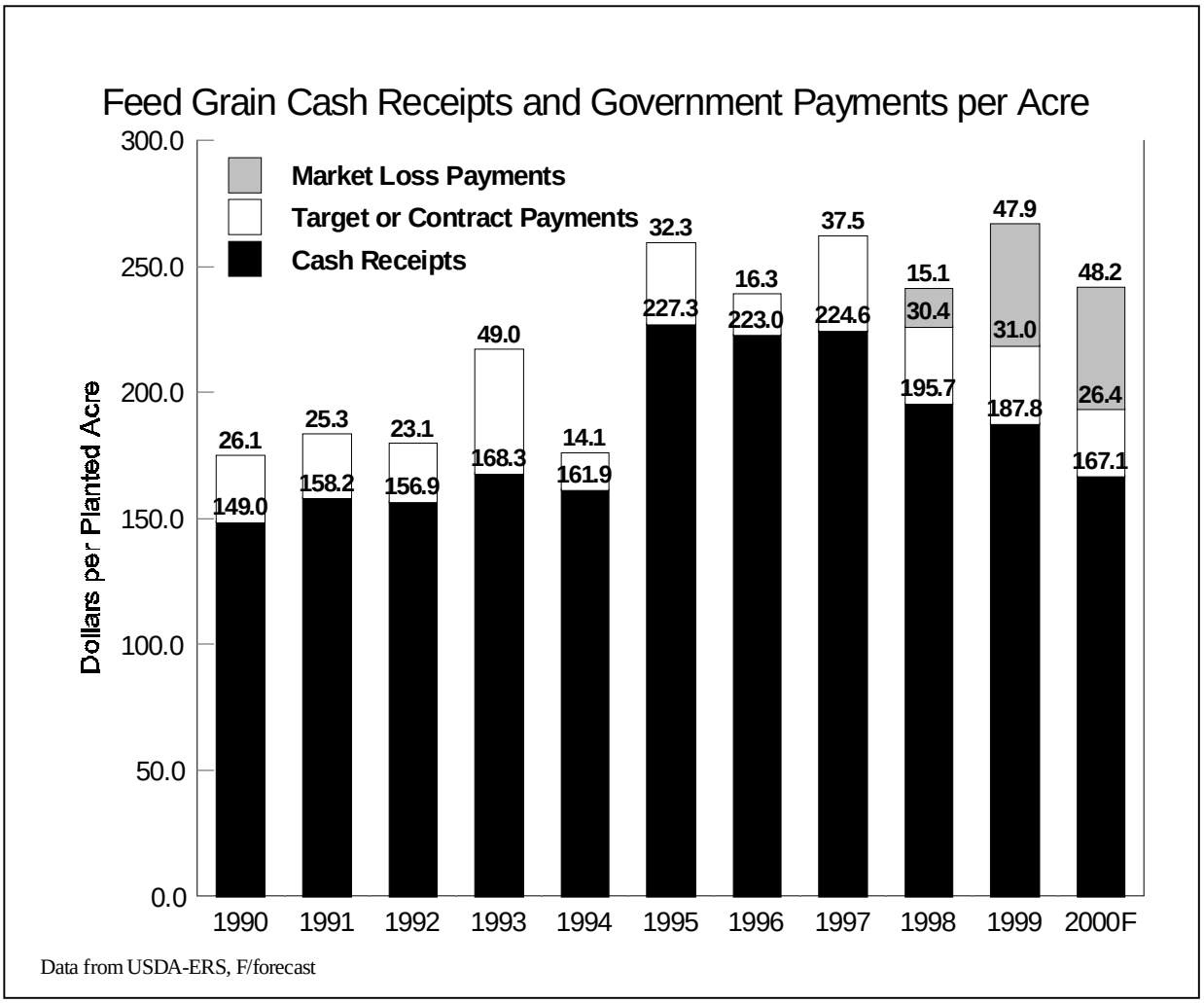
- Rice cash receipts averaged $1.5 billion from 1996 to 2000, varying from a high of $1.73 billion in 1997 to a low of $1.2 billion in 2000. Direct government payments increased from $0.68 billion in 1996 to $1.16 billion in 2000. An increase in government payments, accounting for 30 percent of gross receipts to nearly 50 percent of gross receipts, occurred during the period.



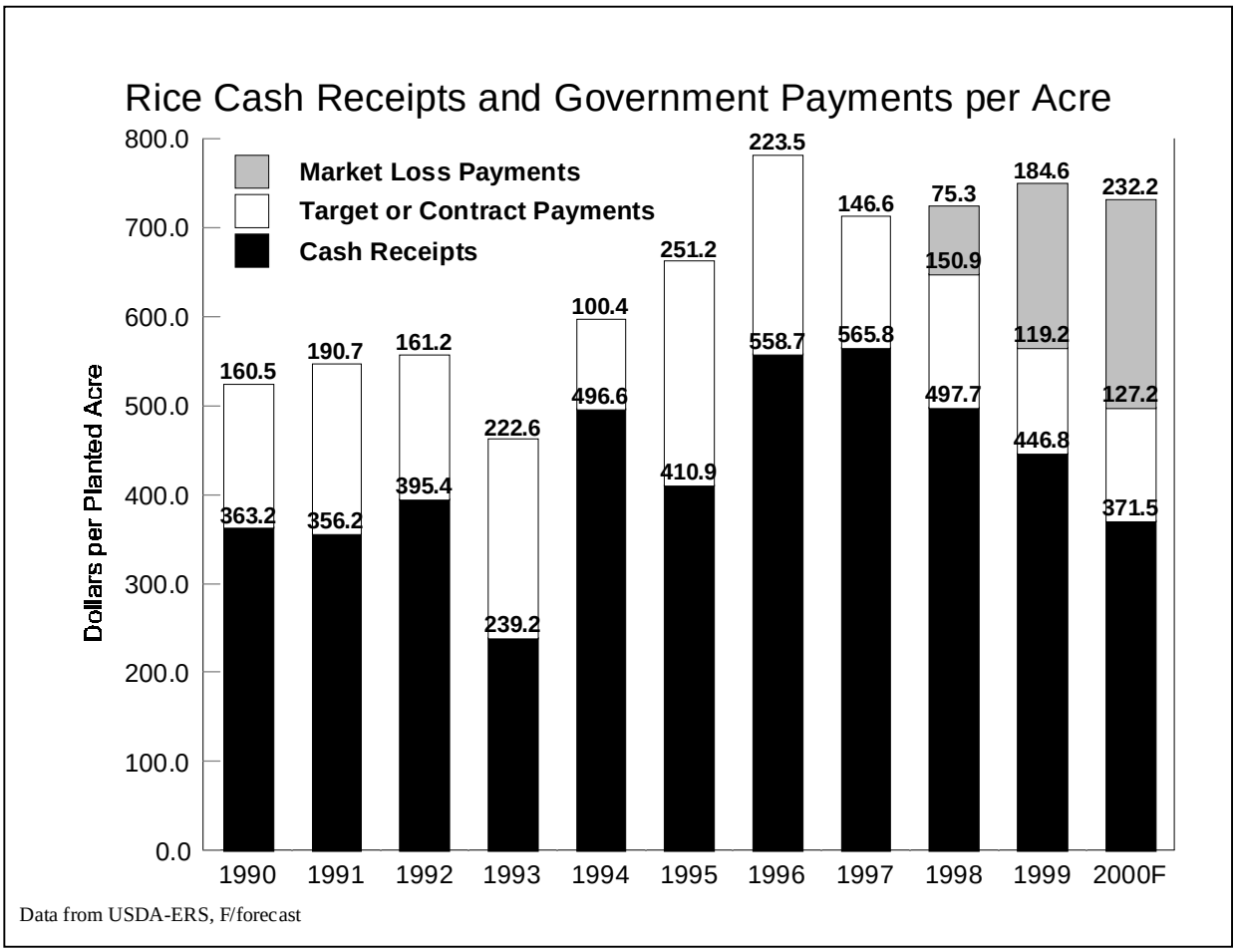
- Wheat cash receipts per acre declined 39 percent from 1996 to 2000. Direct government payments for wheat per acre increased nearly 41 percent over the same period.



- The sum of cash receipts, commodity support payments, and market loss payments in 1999 and 2000 resulted in total per-acre gross receipts nearly as high as the peaks reached in 1996 and 1997.



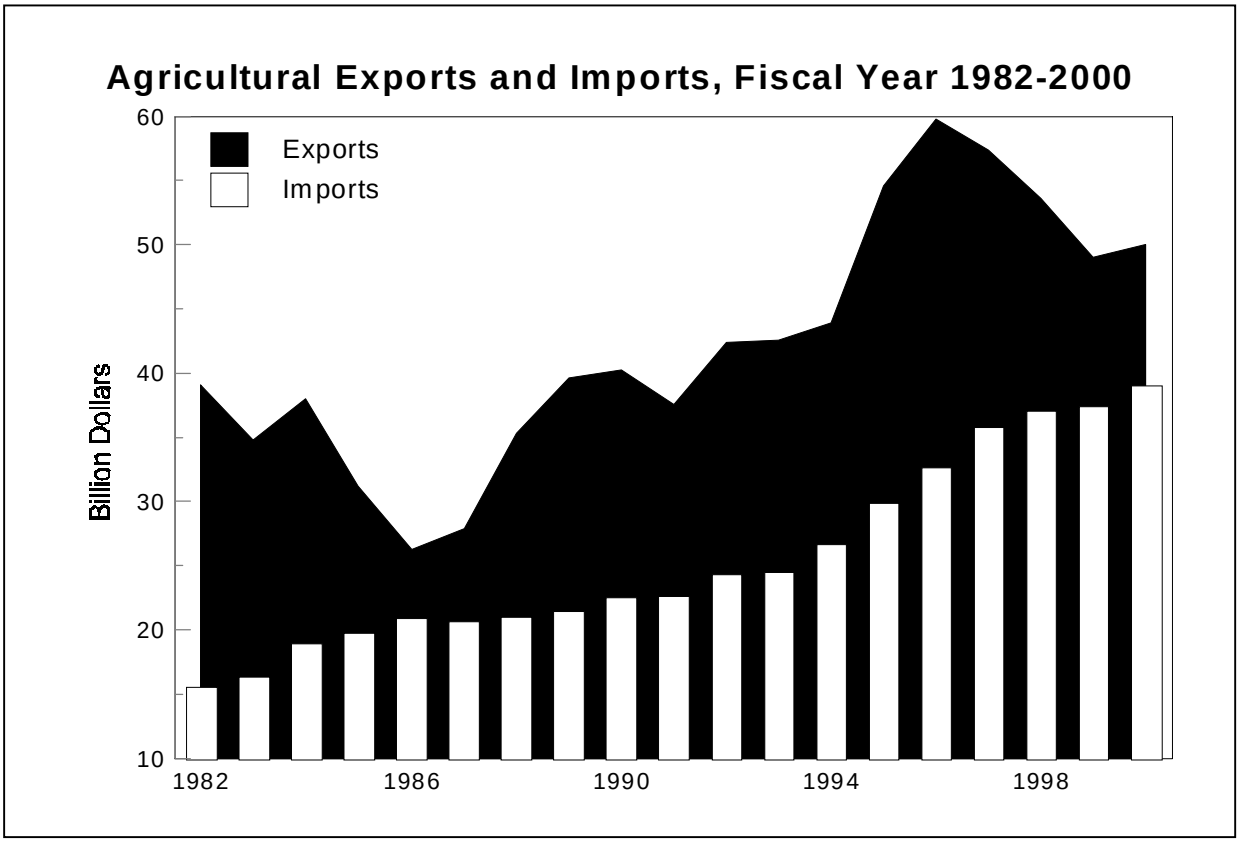
- Cash receipts for rice declined by approximately 34 percent per acre from 1996 to 2000, while direct government payments increased approximately 61 percent during the period.



Data from USDA-ERS, F/forecast

Agricultural Trade

- The United States is the world's largest exporter of agricultural products, with sales of $50.5 billion in fiscal year 2000. Production from an estimated 30 percent of U.S. crop acreage is exported. Agricultural exports represent around 25 percent of gross farm income.

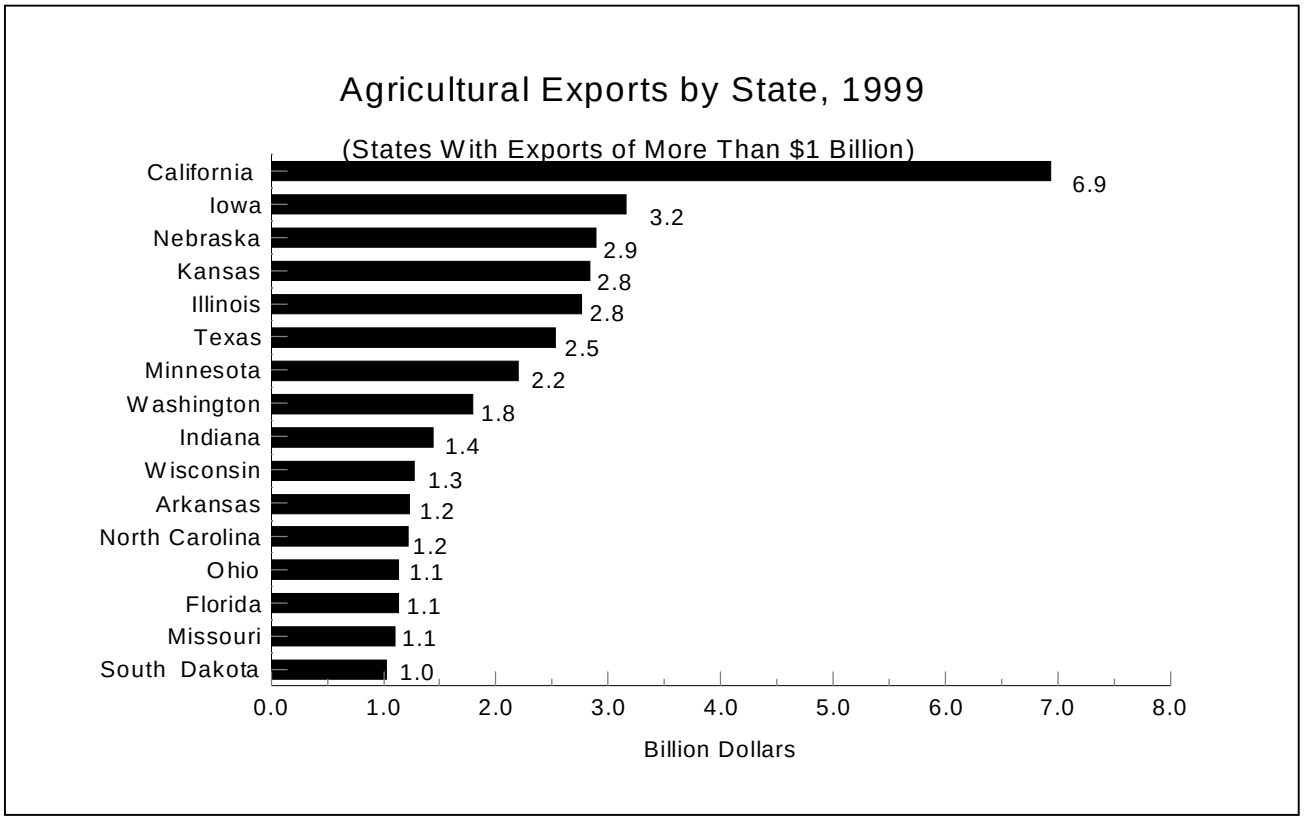


- U.S. agricultural trade consistently registers a surplus. The agricultural trade surplus in 1999 was $11.6 billion, in contrast to a nonagricultural trade deficit of around $352 billion.

- Export volume rose from 1986 to 1996, but declined from 1997 to 1999. In 1999, export volume was 113.7 million metric tons (mmt), down from 119.3 mmt in 1996.

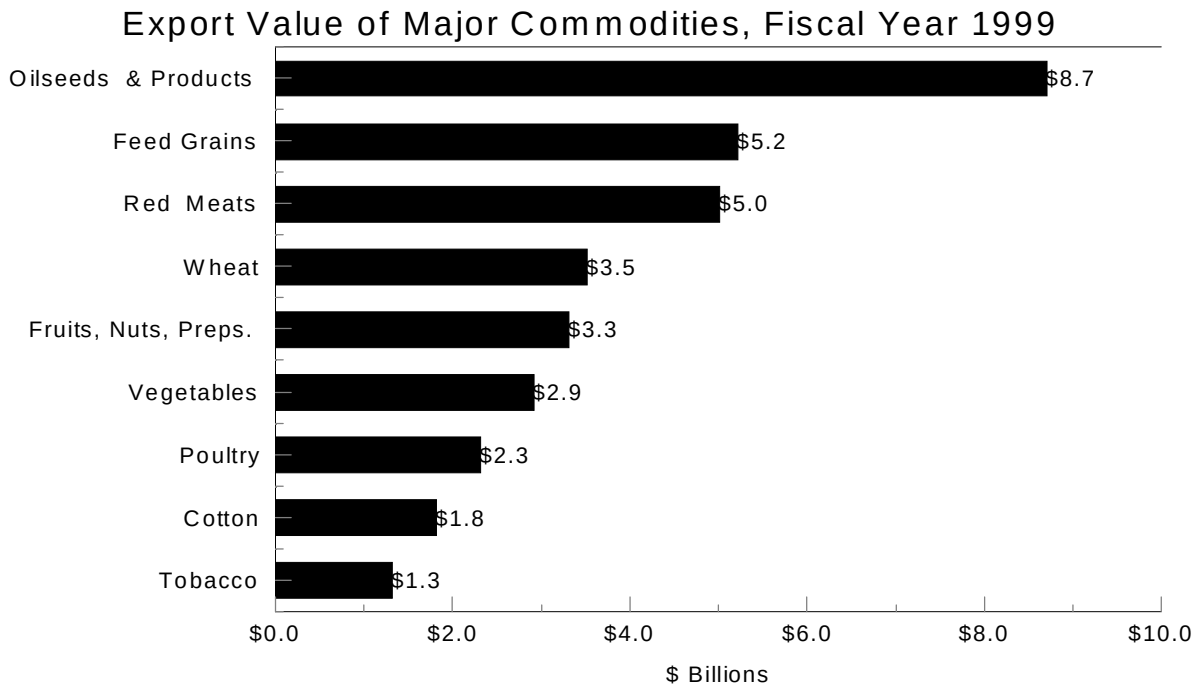
- After growing rapidly in the 1970s, U.S. agricultural exports reached a high of $43.8 billion in fiscal year 1981, then declined 40 percent to $26.3 billion by fiscal year 1986. By fiscal year 1995, agricultural exports had recovered and reached a new peak of $54.6 billion, and continued to nearly $60 billion in fiscal year 1996. The value of U.S. agricultural exports declined to $50.5 billion in fiscal year 2000. The value of exports is forecast to increase by $1 billion (to $51.5 billion) in fiscal year 2001.

- Nearly every state exports agricultural commodities, thereby sharing in export-generated income and employment. In 1999, California had the greatest share of U.S. agricultural exports (by value), followed by Iowa, Nebraska, Kansas, Illinois, Texas, and Minnesota. In addition, Washington, Indiana, Wisconsin, Arkansas, North Carolina, Ohio, Florida, Missouri, and South Dakota each exported more than $1 billion worth of commodities. (This allocation is by formula and not a measure of actual exports.) In 1997, California and Iowa had the most exports followed by Illinois, Nebraska, Texas, Kansas, Minnesota, and Arkansas. In 1997, 19 states had exports of more than $1 billion, compared with only 16 states in 1999.



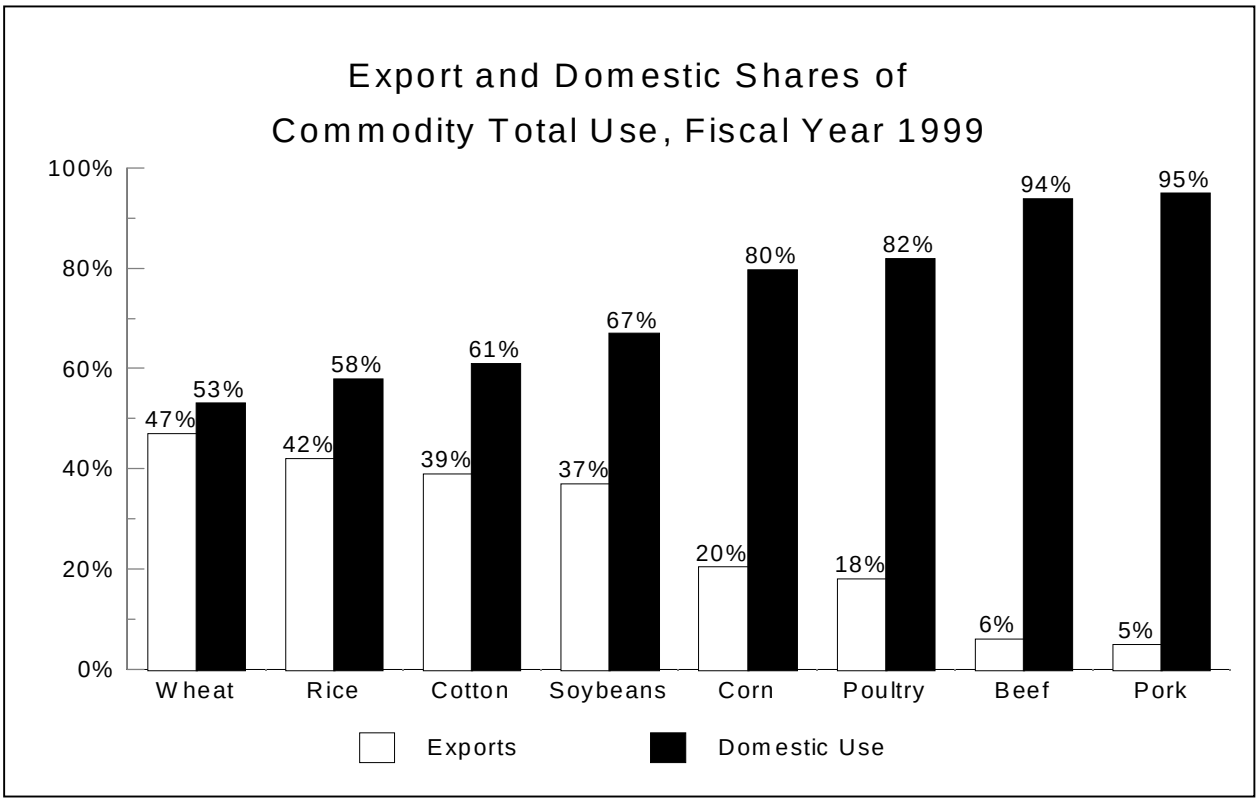
- The United States exports a wide range of agricultural products, including both bulk commodities and high-value products (HVP).

- Oilseeds (mainly soybeans) and oilseed products were the leading commodity components of U.S. agricultural exports in 1999, but significant amounts of feed grains, red meats, wheat, and fruits and nuts were also exported. Vegetables, poultry, cotton, and tobacco are significant HVP exports, as well.



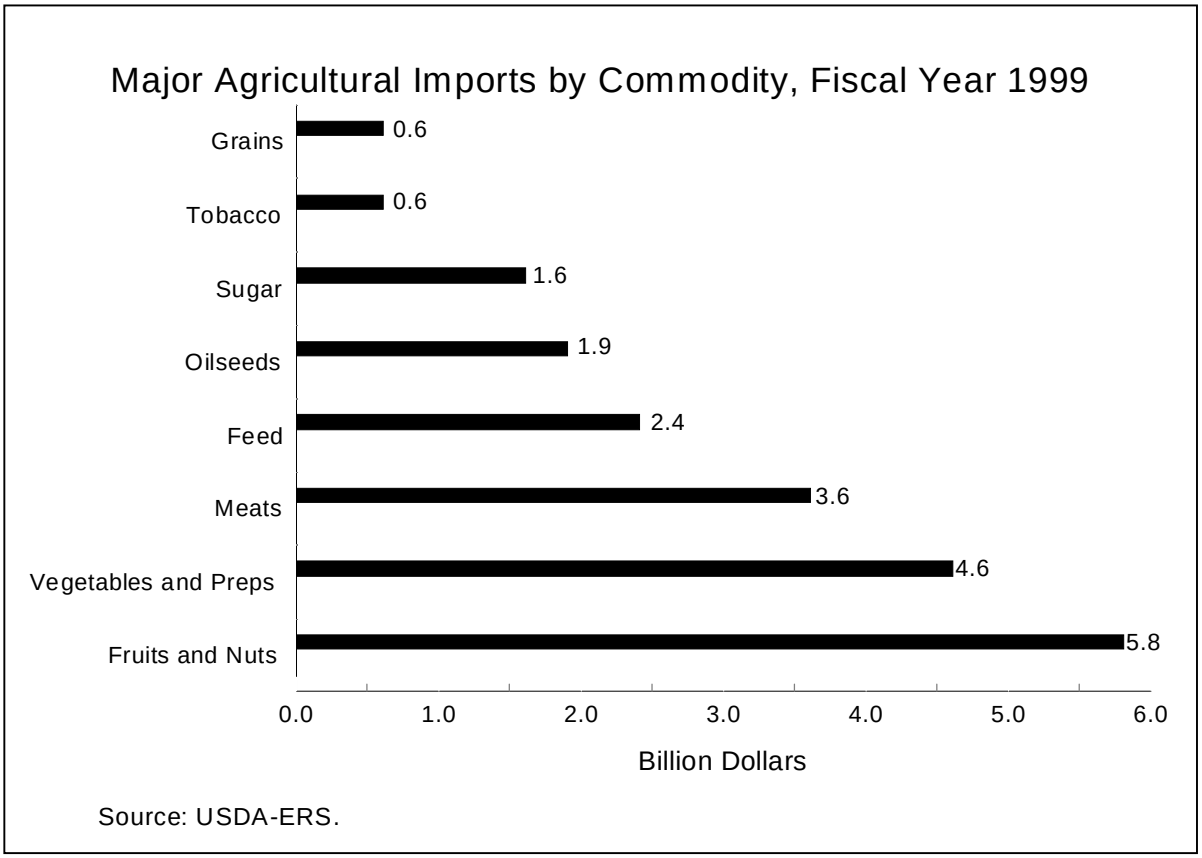
Source: U.S. Department of Agriculture, Economic Research Service.

- Many agricultural commodities depend on the export market. In fiscal year 1999, wheat exports (by volume) accounted for around 47 percent of total production, up from 43 percent in 1997. Export markets are important also for rice, cotton, and soybeans, accounting for 42 percent, 39 percent, and 37 percent, respectively, of total use. The share of corn exports in total use was 20 percent in 1999.



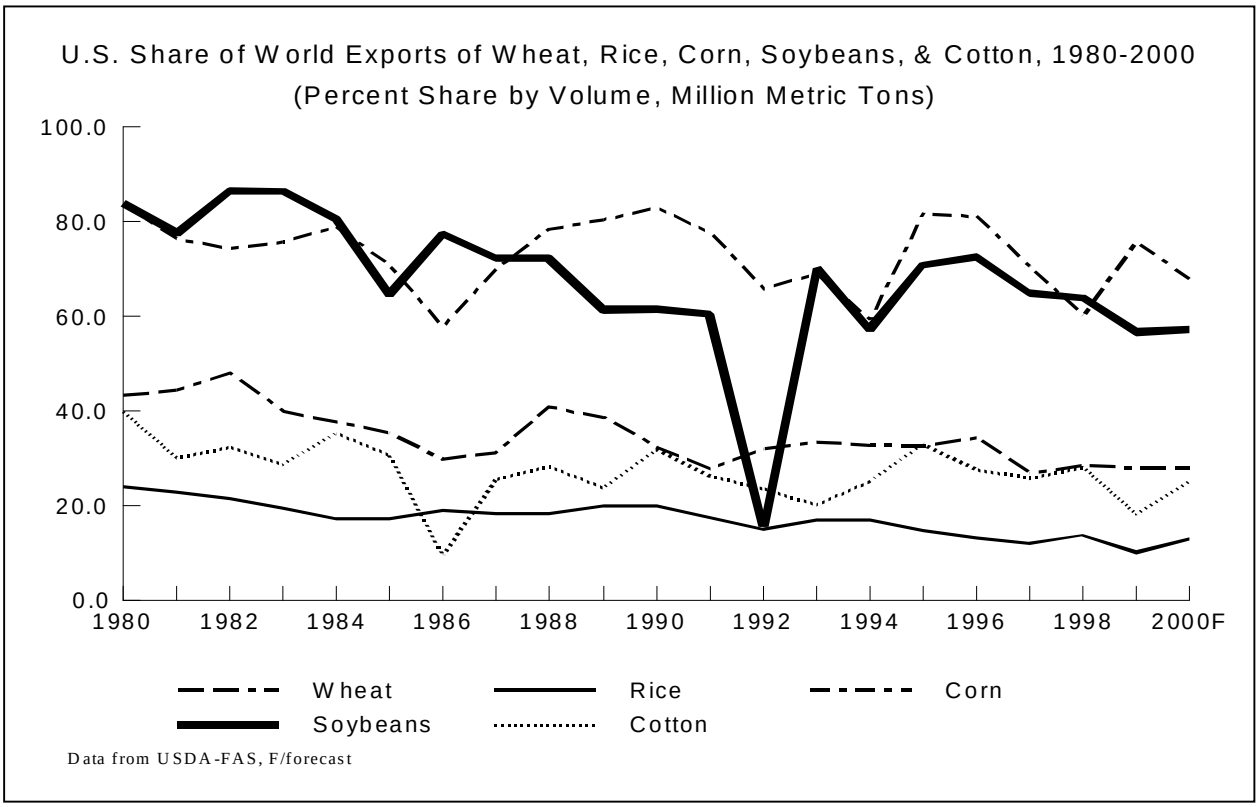
- Beef exports have grown rapidly in the past ten years, tripling in value since 1988, although only a small percentage of total use (six percent) is exported. Similarly, pork exports have been growing, yet only around five percent of total use is exported. Conversely, exports of poultry accounted for more than 18 percent of total use in 1999.

- Imports provide consumers with food variety and enable them to consume more fresh produce throughout the winter months. USDA classifies about one-third of agricultural imports as "non-competitive" (that is, products like coffee, tea, chocolate, and tropical fruit) which are crops that generally are not produced in the United States. The remaining two-thirds USDA designates as "competitive" (that is, products similar to those that are produced in the United States such as meats, sugar, tobacco, grain, oilseeds, and temperate-zone fruits and vegetables).



U.S. Share of World Export Markets

- The United States exports a wide range of commodities that have widely divergent shares in world markets. Market shares are often used as measures of export performance in world markets and as an indicator of competitiveness. U.S. export market shares have tended to decline over time. Nevertheless, the United States remains the world's dominant supplier of soybeans, corn, and wheat, and accounts for significant shares of the world rice and cotton markets.



- Several factors influence the competitiveness of U.S. agricultural products in world markets. Macroeconomic factors such as exchange and interest rates affect competitiveness, as do growth in productivity and efficiency. Natural resource endowments and climate, cost-reducing technologies, and such infrastructure as transportation and communication are important determinants, especially the competitiveness of commodity exports. Supply conditions around the world also affect competitiveness.

- Other factors that affect competitiveness may be more significant in determining the market share of HVPs. More important for HVPs, especially processed foods, may be product characteristics, quality enhancing technologies, product innovations, the regulatory environment, and trade policies.

- Foreign direct investment by U.S. food and agriculture processing firms also affects export market share. USDA's ERS reports that sales of processed foods by U.S.

manufacturing firms that have invested abroad exceed U.S. exports of processed foods by a factor of four. Foreign direct investment, according to the ERS, has become the leading means for U.S. processed food companies to participate in international markets. ERS finds that foreign direct investment and trade in processed foods are complementary, not competitive, in that income growth in most countries has supported growth both in U.S. affiliates' sales and U.S. exports.

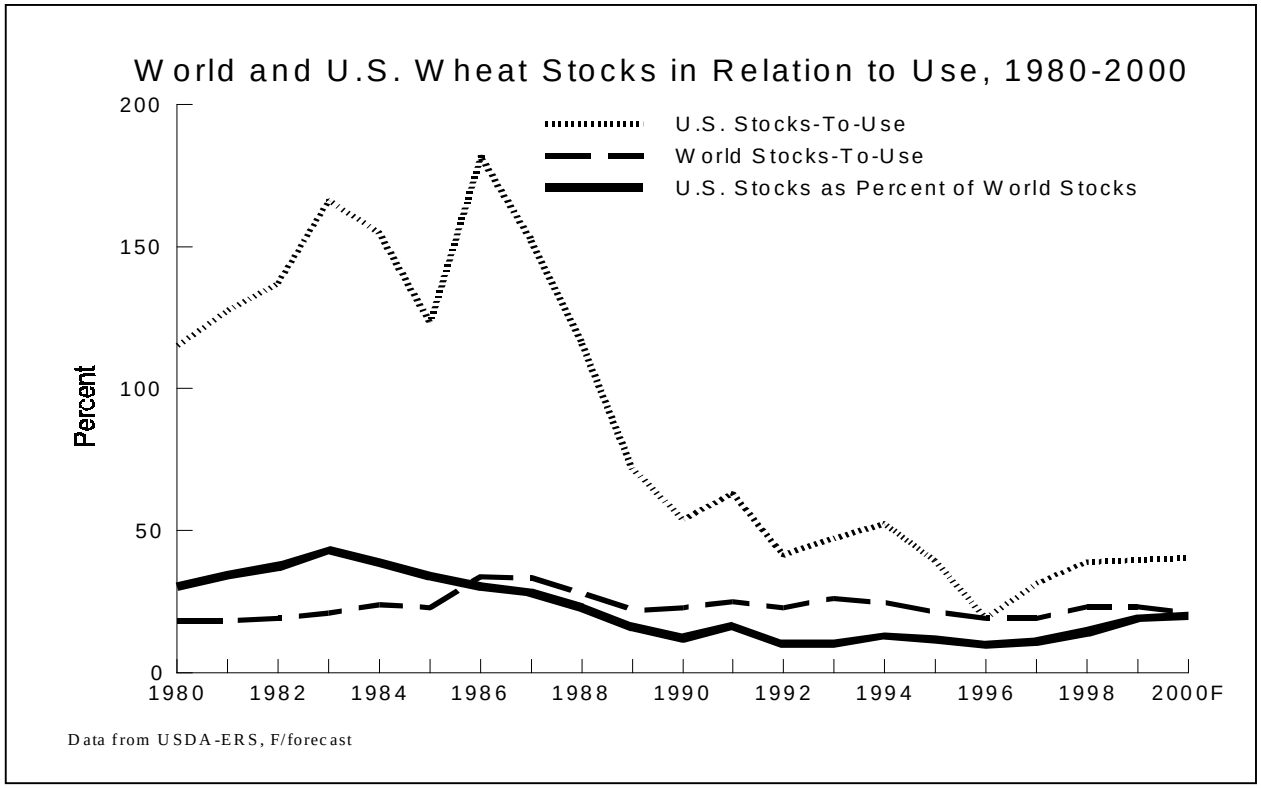
- **Crops**. The United States is the major supplier of corn, soybeans, wheat, and cotton to the world market, with market shares of 68 percent, 57 percent, 28 percent, and 25 percent, respectively, in 2000. The U.S. market share for corn, soybeans, and cotton declined by two percent, eleven percent, and one percent, respectively, from 1997 levels. The European Union (EU), Canada, Australia, and Argentina are major competitors in the world wheat market. Brazil and Argentina together held 32 percent of the world soybean market in 2000, up from 23 percent in 1997. Thailand is the world's dominant supplier of rice (30 percent) and Vietnam, with a share of 18 percent in 2000, has reestablished itself as a major supplier. The United States' share of the world rice market remained at 13 percent in 2000, unchanged since 1997. Uzbekistan accounted for 15 percent of world cotton exports in 2000.

- **Meat and Poultry**. The U.S. share of world beef exports was 18 percent in 2000, up one percent from 1997. Australia (21 percent) and Brazil (11 percent) are the other major beef exporters. The U.S. share of world pork markets was 17.8 percent in 2000 (down from 20 percent in 1997), while the EU's share has risen from 33 percent in 1997 to 41 percent in 2000. Canada, with a share of 20 percent in 2000, up from 16 percent in 1997, is the third major supplier of pork. The United States is the world's leading supplier of poultry meat (40 percent in 2000 compared with 43 percent in 1997). Its share is more than two times that of Hong Kong, which holds the second largest share with 15 percent.

- **Dairy Products**. Australia (20 percent) and New Zealand (49 percent) held more than two-thirds of the world market for butter in 2000, while the United States had a less than one percent share. The EU holds the lion's share of world cheese exports (40 percent), and New Zealand and Australia hold 24 percent and 18 percent, respectively. The U.S. accounts for only four percent of the cheese export market. Only in the nonfat dry milk export market does the United States have a significant share, around 14 percent. The EU, New Zealand, and Australia hold shares of 28 percent, 21 percent, and 19 percent, respectively, in the world nonfat dry milk market.

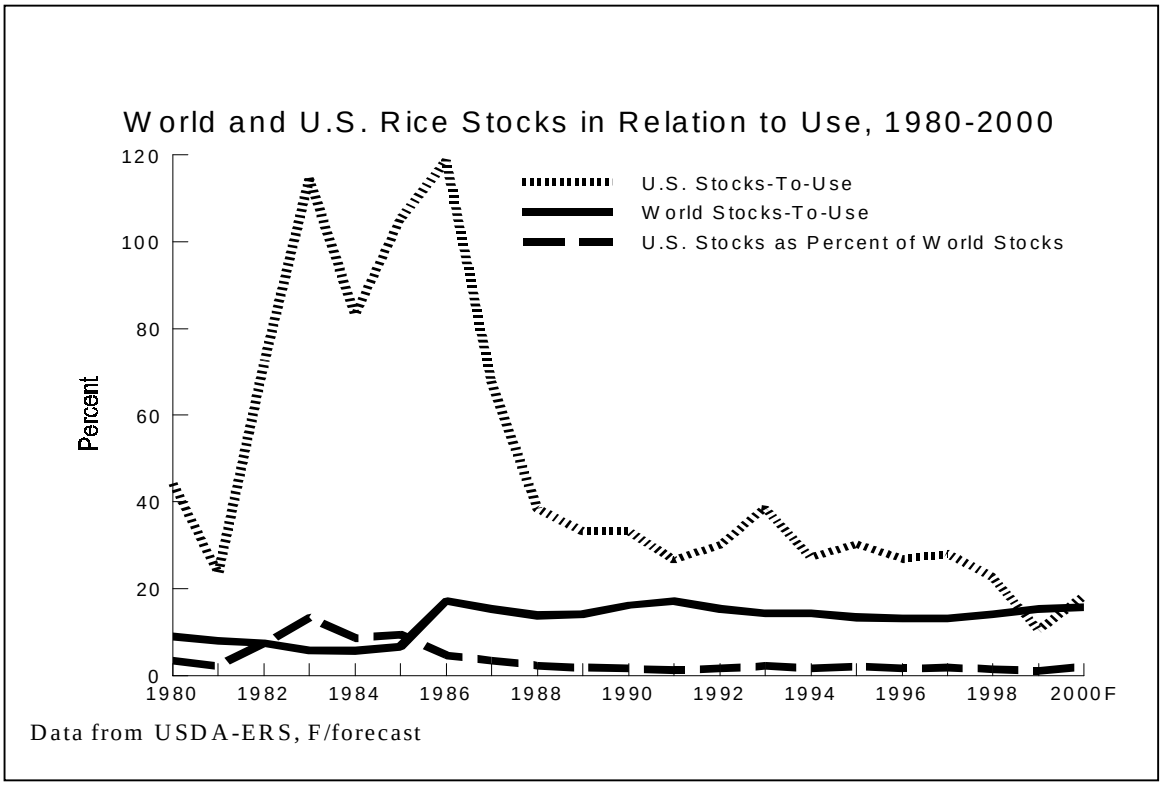
U.S. and World Stocks of Major Commodities

- **Wheat**. The ratio of U.S. wheat stocks to use (stocks as a percentage of total domestic and export use, the S/U ratio) has varied considerably over time. During most of the 1980s, wheat stocks far exceeded annual consumption, reaching a high of 182 percent of use in 1986. Among other factors, farm bills in 1985 and 1990 established or expanded mechanisms to move stocks into domestic and world markets. As a result, stocks declined in relation to use through most of the late 1980s and 1990s. More recently, factors such as the Asian financial crisis, slower world economic growth, and abundant wheat supplies in competitor countries have contributed to a rebuilding of U.S. wheat stocks.

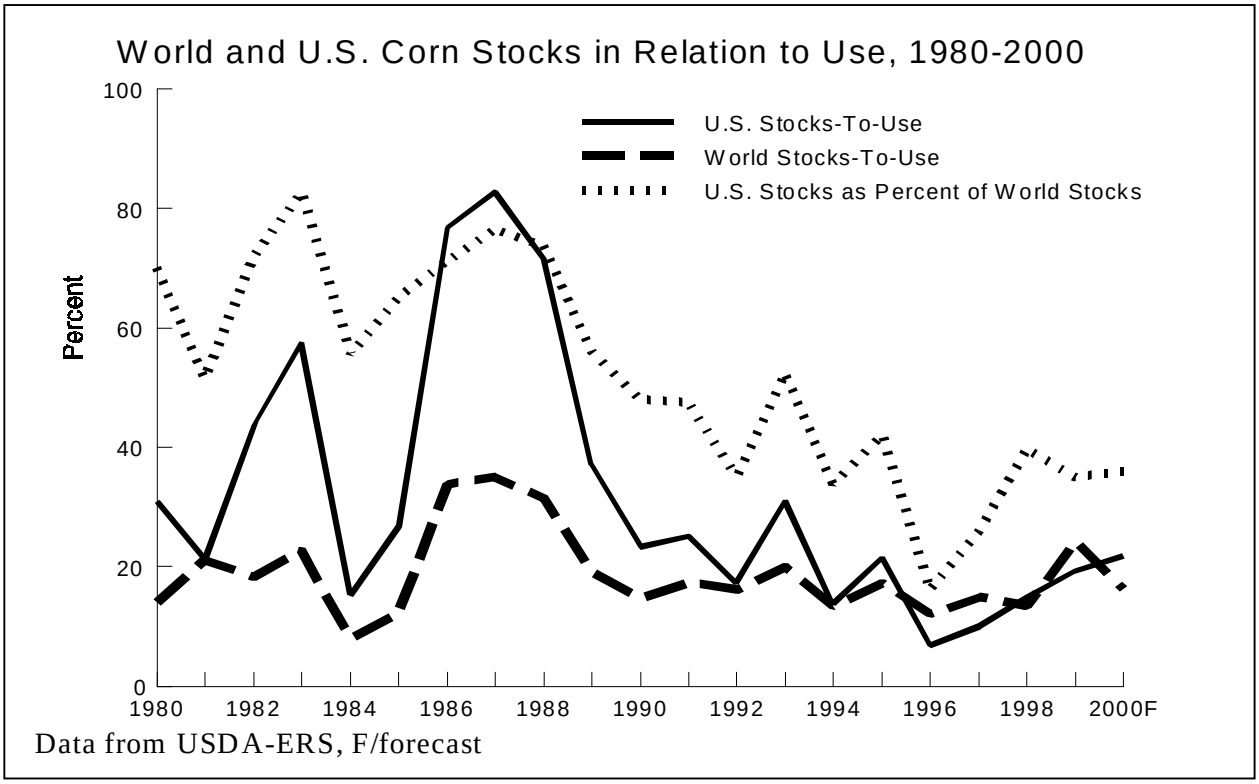


- World wheat stocks have shown considerably less variation. During the 1980s, world stocks averaged around 24 percent of total consumption; in the 1990s the average was only slightly lower, around 23 percent. U.S. wheat stocks averaged just over one-third of world stocks during most of the 1980s. As a result of policies and economic factors, however, the U.S. share in world wheat stocks declined during the 1990s to an average of around 12 percent. In 1997, the U.S. share of world wheat stocks began an upward trend.

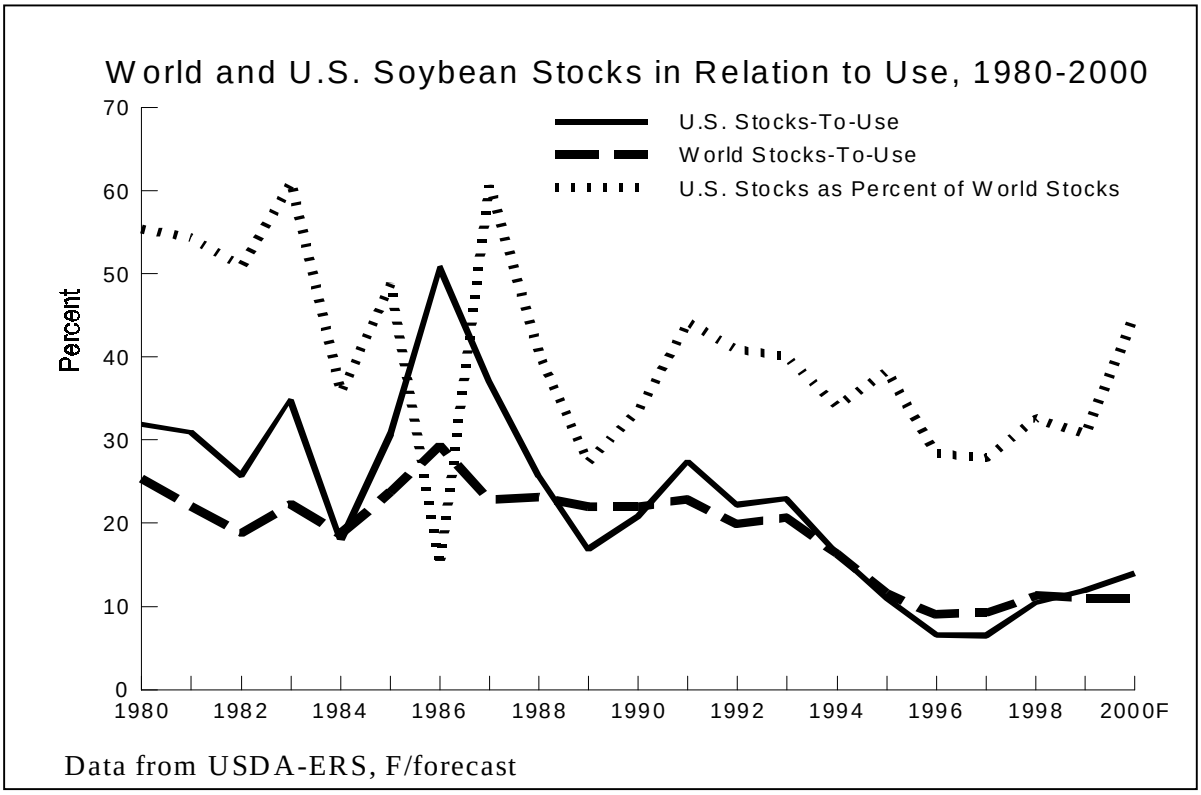
- **Rice**. The ratio of U.S. stocks of rice to use was large during the 1980s, reaching highs of nearly 120 percent of consumption. During the 1990s, because of the same factors as for wheat, rice stocks declined. The average U.S. rice S/U ratio in the 1990s had been around 30 percent. In general, world rice stocks represent a smaller percentage of consumption than do wheat stocks. For the past 20 years, the world's S/U ratio for rice has averaged around 12 percent. The U.S. share in world rice stocks has been relatively small, around six percent in the 1980s and just under two percent in the 1990s.



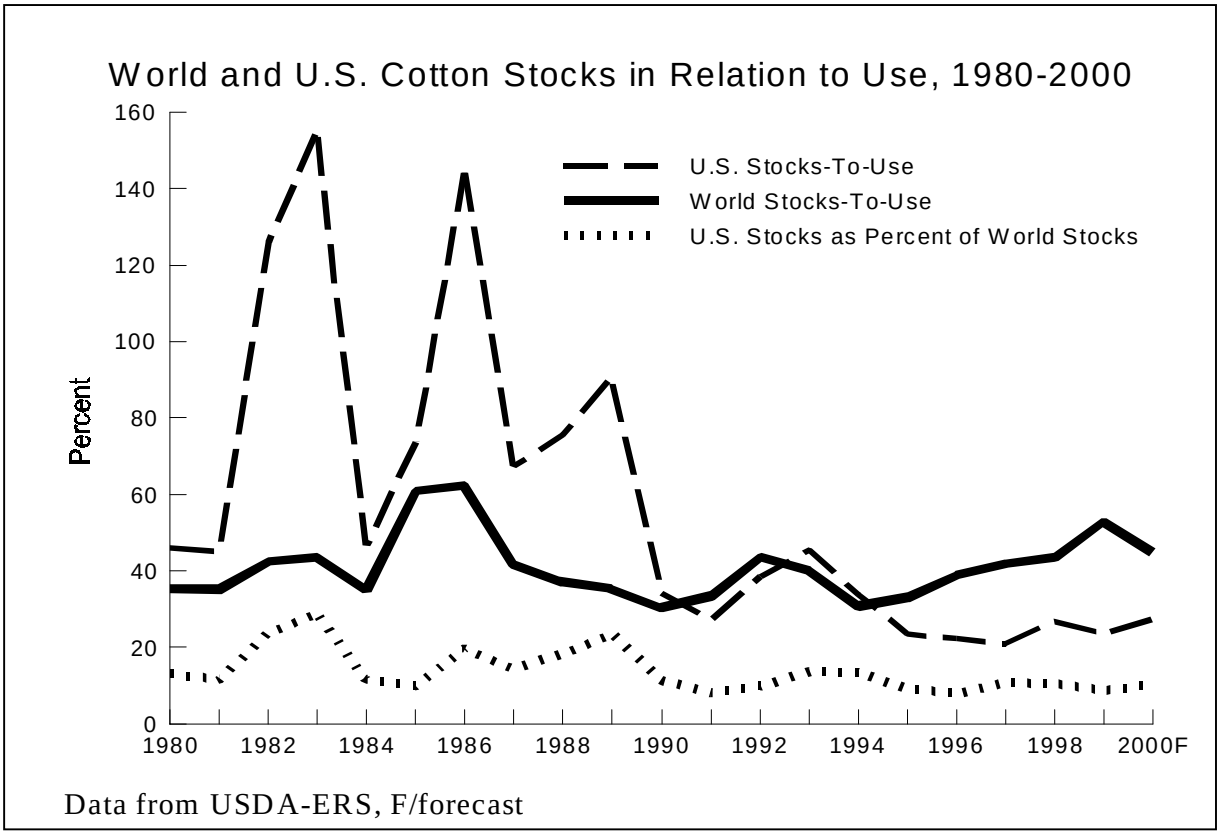
- **Corn**. Trends in the S/U ratio for corn are similar to those of wheat. U.S. stocks of corn were large relative to use during the 1980s, although not as large as for wheat. During the 1990s, the U.S. corn S/U ratio has declined. Reflecting its position as the major supplier of corn to world markets, the U.S. share of world stocks has remained large since 1980, although it declined from an average of around 67 percent in the 1980s to around 39 percent in the 1990s.



- **Soybeans**. The U.S. soybean S/U ratio also has declined over time. U.S. stocks averaged around 30 percent of consumption during the 1980s; in the 1990s, they averaged below 20 percent. The world S/U ratio has trended down as well over the past two decades.



- **Cotton**. U.S. cotton stocks in relation to cotton use were especially volatile in the 1980s. World cotton stocks as a percentage of use have been much more stable. The U.S. share of world cotton stocks has remained small over the past two decades.



Data from USDA-ERS, F/forecast

PROPOSAL FOR COMPREHENSIVE
LONG-TERM AGRICULTURAL TRADE REFORM
Submission by the United States

In accordance with the long-term objective of establishing a fairer, more market-oriented agricultural trading system and the procedures agreed on at the March meeting of the Committee on Agriculture, the United States hereby submits a comprehensive agricultural reform proposal for correcting and preventing restrictions and distortions in world agricultural markets.

By defining, quantifying, and reducing trade-distorting market access, export competition, and domestic support measures, the Agreement on Agriculture established the necessary conditions for long-term reform. The major challenge facing members in this negotiation is to build on that foundation by accelerating the process of reducing trade distortions while preserving the appropriate role for governments to address agricultural concerns in a non-trade-distorting fashion.

Several factors add urgency to this challenge, including internal pressures on members to conduct serious reform, efforts to reduce budgetary expenditures on agriculture, the development of new technologies, the challenge of promoting sustainable development, and the increasing challenge to the world's farmers and ranchers to feed an expanding population on a shrinking resource base. Coupled with the built-in time schedule in the Agreement on Agriculture, the United States proposes that members reach an overall agreement by the end of 2002 and reach agreement on basic modalities at the midterm of the negotiations in 2001.

The specific elements of the United States' approach entail reforms across all measures that distort agricultural trade and that, once adopted, will reduce levels of protection, close loopholes that allow for trade-distorting practices, clarify and strengthen rules governing implementation of commitments, foster growth, and promote global food security and sustainable development.
The United States believes that there are compelling arguments for further reform. Too often and in too many countries, the production and marketing decisions that farmers make are still driven by government programs and protections from market-access barriers, rather than market conditions. As a result, competitive farmers, ranchers, and processors are denied sufficient access to markets and face subsidized products and the trade-distorting policies of foreign governments, leaving the world with an agricultural market still far from the World Trade Organization's (WTO) objective of a fair and market-oriented system.

Many costs are associated with trade distortions. Distorting subsidy schemes are a wasteful drain on budgets. Along with import restrictions, they misallocate limited resources. Rigid government programs and unscientific regulatory restrictions discourage innovation in production and marketing, threaten the future viability of agriculture, and undermine producers' ability to meet growing food and fiber needs. Barriers to trade foreclose consumer choices and can reduce consumer access to adequate food. Distorting

subsidies frequently lead to environmentally destructive practices, threatening as well farmers' and ranchers' ability to develop efficiently and in a sustainable manner. All of these distortions are especially burdensome for developing countries, and particularly least developed countries, many of whom depend on agriculture for income and employment, look to trade opportunities to generate economic growth, and depend on the free flow of agricultural products for food security.

While the United States is committed to working through the WTO to eliminate trade-distorting measures, the United States is likewise committed to and supports policies that address nontrade concerns, including food security, resource conservation, rural development, and environmental protection. The United States maintains that these objectives are best met through nontrade-distorting means, with programs targeted to the particular concern without creating new economic distortions, thereby avoiding passing the cost of achieving these objectives to other countries by closing markets, or introducing unfair competition, or both. The United States recognizes that trade measures may be used to address legitimate health and safety concerns and does not support opening the Agreement on Sanitary and Phytosanitary Measures to negotiation. The United States also recognizes the special circumstances and challenges that developing countries face and therefore will supply proposals to help better integrate them into the world trading system.

The U.S. proposal will increase the market-orientation of world agriculture, providing producers in all countries with more opportunities to compete in world markets, on fairer terms, with more access to expanding markets. Not only will domestic policies structured in conformity with the U.S. proposal remove a major source of trade distortion, they will release producers from restrictive government policies that prescribe what and how much to produce, freeing farmers to follow their judgement and the natural carrying capacity of their land. Such an environment will result in expanding economic opportunities for farmers and ranchers and put farm economies on a more sound basis. At the same time, members' adherence to the reforms will alleviate food security concerns by providing greater access to food and enhanced purchasing power. Consumers will benefit from wider choice, access to new products with new benefits, and more competitive prices.

U.S. Proposal: Market Access

The U.S. objective for these WTO negotiations on agricultural market access is to maximize market access opportunities for all countries and to make more uniform the level and structure of tariff bindings for all countries in all products.

The United States proposes:

Tariffs

- To reduce substantially or eliminate disparities in tariff levels among countries, to reduce substantially or eliminate tariff escalation, and ensure effective market access opportunities for all products in all markets

- to reduce substantially or eliminate all tariffs, including in-quota duties, by reducing them from applied rates through progressive implementation of annual reduction commitments over a fixed period
- To denominate bindings and applied rates on a specific or ad valorem basis without the use of complex tariffs or combinations of tariffs
- To eliminate the transitional special agricultural safeguard as defined in Article 5 of the Agreement on Agriculture.

Tariff-Rate Quotas

- To subject all tariff-rate quotas to substantial increases through progressive implementation of annual commitments over a fixed period
- To establish disciplines to improve functioning of tariff-rate quotas, including specific mechanisms that trigger when tariff rate quota fill remains below a fixed level.

Import State Trading Enterprises

- To end exclusive import rights to ensure private sector competition in markets controlled by single-desk importers
- To establish WTO requirements that increase transparency in the operation of single-desk importers, including their decisions on quality and source of imports.

Products of New Technologies

- To focus disciplines to ensure that processes covering trade in products developed through new technologies are transparent, predictable, and timely.

U.S. Proposal: Export Competition

The U.S. objective for the WTO negotiations on agricultural export competition is to eliminate export subsidies and variable export taxes and to discipline export state trading enterprises.

The United States proposes:

Export Subsidies

To reduce to zero the levels of scheduled budgetary outlays and quantity commitments through progressive implementation of annual reduction commitments over a fixed period.

Export State Trading Enterprises

- To end exclusive export rights to ensure private-sector competition in markets controlled by single-desk exporters

- To establish WTO requirements for notifying acquisition costs, export pricing, and other sales information for single-desk exporters

- To eliminate the use of government funds or guarantees to support or ensure the financial viability of single-desk exporters.

Export Taxes

- To prohibit the use of export taxes**,** including differential export taxes, for competitive advantage or supply management purposes.

Export Credit Programs

- To conduct negotiations for export credit programs in the Organization for Economic Cooperation and Development in fulfillment of Article 10.2 of the Agreement on Agriculture, and apply disciplines to all users.

U.S. Proposal: Domestic Support

The U.S. objective for these WTO negotiations on agricultural domestic support is to reduce substantially trade-distorting domestic support in a manner that corrects the disproportionate levels of support members' use, while simplifying the way in which domestic support is disciplined. The United States proposes building on the key elements of the Agreement on Agriculture, including the de minimis principle, and making progress through a fairer and simpler approach to capping, binding, and reducing trade-distorting support. This approach recognizes the legitimate role of government in agriculture. In particular, the U.S. proposal allows for support that is delivered in a manner that is, at most, minimally trade distorting. This could include, among others, income safety-net and risk-management tools, domestic food aid, environmental and natural resource protection, rural development, new technologies, and structural adjustment that promote economically sustainable agricultural and rural communities.

The United States proposes:

- To simplify the domestic support disciplines into two categories: exempt support, as defined by criteria-based measures that have no, or at most, minimal trade-distorting effects or effects on production; and nonexempt support, which would be subject to a reduction commitment
- That all members with a final bound Aggregate Measurement of Support in their schedules commit to reduce the level of nonexempt support as follows:
- reductions start from the final bound Aggregate Measurement of Support
- reduce the Aggregate Measurement of Support to a final bound level equal to a fixed percentage of the members' value of total agricultural production in a fixed base period
- the fixed percentage will be the same for all members
- reductions would be implemented through progressive annual reduction commitments over a fixed period

- To enhance further, by building on experience, the criteria for exempt support measures while ensuring that all exempt measures are targeted, transparent, and, at most, minimally trade-distorting
- To give special consideration to exempt support measures essential to the development objectives of developing countries as noted under the section on special and ifferential treatment.

U.S. Proposal: Special and Differential Treatment

The U.S. objective for these negotiations is to better integrate developing countries into the WTO system through technical assistance, by improving market access opportunities, in particular for least developed countries, and by affording flexibility for exempt support measures essential to development objectives.

The United States recognizes the need for capacity building in developing countries to enhance their integration into, and their ability to benefit from, the international trading system. In this regard, the United States will work with developing countries to take advantage of the broad range of programs offered by international organizations, bilateral aid agencies, and other entities including programs under the Integrated Framework for least developed countries. In addition, the United States encourages all members to build on and expand current activities and improve technical assistance coordination.

The United States proposes:

Market Access

- That all WTO members consider products of interest to developing countries, in particular least developed countries, when making tariff reductions

- To give special consideration to least developed countries when they implement tariff reduction commitments.

Domestic Support

- To create additional criteria for exempt support measures deemed essential to the development and food security objectives of developing countries, to facilitate the development of targeted programs to increase investment and improve infrastructure, enhance domestic marketing systems, help farmers manage risk, provide access to new technologies promoting sustainability and resource conservation, and increase productivity of subsistence producers.

Technical Assistance

- That WTO members intensify ongoing technical assistance through governmental and nongovernmental entities in parallel with these negotiations.

U.S. Proposal: Food Security

The U.S. proposal is a food security proposal. The United States believes, in addition to the non-trade distorting domestic support measures countries take to enhance their food security, that further liberalization of trade in agricultural products and promotion of legitimate assistance programs are important elements in strengthening food security. Trade liberalization will enhance important efforts on food security underway in several venues, including the Food Aid Convention, the United Nations Food and Agriculture Organization, and the World Food Program. In addition to specific disciplines that expand sources of supply and encourage efficiencies in agricultural production, trade reform will result in economic growth and spur innovation, expanding global food security. It is important to recognize that liberalization alone will not address food security needs in all developed and least developed countries. As a consequence, the negotiations need to take into account the continuing role of international food aid and credit programs in providing for food import needs.

The United States proposes:

- To renew the commitment to food aid as expressed in the Uruguay Round's "Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least Developed and Net Food-Importing Developing Countries"
- To continue the WTO disciplines on food aid contained in Article 10.4 of the Uruguay Round Agreement on Agriculture that have proven to be appropriate
- That the disciplines to be developed at the Organization of Economic Cooperation and Development for agricultural export credits and credit guarantees should not prevent WTO members from using such programs to improve the food security status of other members
- To establish export reporting systems in all members to increase information on the level and direction of international grain and oilseed transactions
- To strengthen substantially WTO disciplines on export restrictions to increase the reliability of global food supply.

U.S. Proposal: Sectoral Initiatives

The United States proposes that WTO members engage in sector-specific negotiations to agree on reform commitments beyond those generally applicable in the areas of market access, export competition, and domestic support**,** including, but not limited to, zero-for-zero and harmonization initiatives.

Commission Participants

Public Listening Sessions (by State)

Alabama
Charles Bishop, Commissioner - Alabama Department of Agriculture and Industries
Thomas Dozier, Producer
Steve Cawthon, Executive Director - State Soil and Water Conservation Committee
Stuart Frazer, Cotton Merchant - Production Marketing Corporation
Sam Givhan, Producer
Curtis Grissom, President - National Association of County Agricultural Agents
George Hall, Producer, President - Black Farmers Association
Walter Hill, Dean, Director - Tuskegee University
Hollis Isbell, Producer, Chairman of the Board of Directors - Southern Cotton Growers
Arthur Jackson, Producer
Stephen Jones, Extension Director - Alabama Cooperative Extension System
Ted Kretschmann, Producer, Board Member - Alabama Beekeepers Association
Jerry Newby, Producer, President - Alabama Farmers Federation
Dickie Odom, Producer, Chairman - Alabama Catfish Producers
Tommy Paulk, CEO - Alabama Farmers Cooperative
Hal Pepper, Extension Economist - Auburn University
William E. Powell, III., Executive Vice President - Alabama Cattleman's Association
George Robertson, Producer
Miles Robinson, Director - Small Farm Center, Tuskegee University
Clara Spivey, President – Women Involved in Farm Economics
Luther Waters, Dean of the College of Agriculture - Auburn University
Ricky Wiggins, Vice President - Alabama Farmers Federation
John Zippert, Director of Program Operations - Federation of Southern Cooperatives

Arizona
Ron Rayner, Producer, President - National Cotton Council
Nicole Waldron, Legislative Liaison - Arizona Department of Agriculture

California
Shirley Batchman, Director of Industry Relations - California Citrus Mutual
Jane Logoluso Bautista, Vice President, Field Relations - Logoluso Farms
Claire Hope, Journalist and Lawyer
Manuel Cunha, Jr., President - Nisei Farmers League
Clay Daulton, Producer
Gerald Davidson, Grower - Sunkist
John Deiner, Grower
Frank Faria, Producer
Rudy Flatizcan, Director - Valley Vision Project
Ben Goodwin, Executive Manager - California Beet Growers Association
David Hart - University of California-Davis
Bob Herkert, Communications Manager - California Rice Commission

Adin Hester, President - Olive Growers Council
Manuel Jimenez, Farm Advisor, California Cooperative Extension Service
Nick Kuminoff, Graduate Student/Research Assistant - University of California-Davis
Phil Larson, Producer
Michele Lasgoity, Producer
Loren Lopes, Dairy Producer
Linda Macedo, Producer, President - California Women for Agriculture
Scott Magneson, Producer
Morris Martin, Manager - Westside Resource Conservation District
Richard Matoian, President - California Grape and Tree Fruit League
Guy Morrison, President - I.B.A. West
Bob Munyon, Poultry Producer
Gloria Palacios, President, Multi-ethnic Small Farm and Community Development
Jack Pandol, Producer
Craig Pedersen, Chairman - California Wheat Commission
Joanne Powell, Producer
W. K. Quarles, Vice President of Corporate Relations and Counsel - Sunkist Growers Inc.
Jose Quezada, Entomologist
Justin Ruben, Pesticide Watch
Gary Schulz, General Manager - International Agri-Center Inc.
Nadine Scott, Attorney at Law
Will Scott, Jr., Producer
Jerome Seibert, Economist - University of California-Berkeley
Alvin Sokolow, Public Policy Specialist - University of California-Davis
Dan Sumner, Director of the Agricultural Issues Center - University of California-Davis
Donna Thomas, President - California Association of Resource Conservation Districts
Jim Tillison, Dairy Industry Representative
Paul Wenger-Walnut Grower, Second Vice-President - California Farm Bureau
Terrence Witzel, Field Director - American Farmland Trust

Colorado
Don Ament, Commissioner - Colorado Department of Agriculture
Craig Anderson, Producer - Colorado Sugarbeet Growers
Dave Carter, President - Rocky Mountain Farmers Union
Jeanne Davies,Vice President - National Grange
Bob Eisenrach, State Executive Director - Colorado Farm Service Agency
Harley Ernst, Producer
Jennifer Felzein, Producer
Tim Hume, Producer
Kirvin Knox - Colorado State University
Roger Mitchell, President - Colorado Farm Bureau
Milan Rewerts, Director - Cooperative Extension Service, Colorado State University
Vernon Sharp - Colorado Cattleman's Association
Leon Silkman, Chairman of the Board - High Plains Project
Lee Sommers, Director - Agricultural Experiment Station, Colorado State University

Dusty Tallman, President - Colorado Wheat Growers

Connecticut
Thomas Coyle, Grain Merchant, Representative - National Grain and Feed Association

Florida
Jeff Crawford, Jr., Executive Director - Florida Peanut Producers Association

Georgia
Richey Seaton, Executive Director - Georgia Cotton Commission
Jim Shirah, Producer
Jerry Usry, Executive Director - Georgia Peanut Producers Association
Chris Waylor - Georgia Poultry Federation

Idaho
Keith Kinzer, President - Idaho Grain Producers Association
Steve Martineau, Producer, Idaho Sugarbeet Growers
Timothy McGreevy, President, CEO - USA Dry Pea and Lentil Council
Patrick A. Takasugi, Director - Idaho Department of Agriculture

Illinois
Carl Baumann, Dairy Producer
David Chicoine, Dean - College of Agriculture, Consumer, and Environmental Sciences, University of Illinois
Brad Glenn, Producer, President - Illinois Soybean Association
Trenna Grabowski, Accountant, Producer
Gregory Guenther, Past President - Illinois Corn Growers
Joseph Hampton, Director - Illinois Department of Agriculture
Donald Holt, Senior Associate Dean - College of Agriculture, Consumer, and Environmental Sciences, University of Illinois
Carol Keiser, Board of Directors - Illinois Council on Food and Agriculture Research (C-FAR)
Pam Kerpec, Chairperson - Lake County Soil and Water Conservation District
Richard Klossner, Dairy Producer
David Lehman, Group Manager - Commodity Products, Chicago Board of Trade
William Lemon, Director - Government and Regulatory Affairs, Illinois Grain and Feed Association
Pat McCullough, Producer
Larry Quandt, Producer, President - Illinois Farmers Union
Jim Sutter, Director - Oilseeds/Futures, Cargill, Inc.
Ron Warfield, President - Illinois Farm Bureau
Doug Wilson, Producer, President - Illinois Corn Growers

Indiana
Mike Aylesworth, Producer, President - Indiana Corn Growers Association

Jennifer Campbell, Producer

Iowa
Charles Norris, Producer - Iowa Farm Bureau

Kansas
Steve Baccus, President - Kansas Farm Bureau
Lowell Burchett, Retired Director - Kansas Crop Improvement Association
Vance Ehmke, Producer
Mark Meisinger, Producer
Alan States, Producer, Banker
Dean Stuskopf, Producer, Vice President - Kansas Association of Wheat Growers

Louisiana
John Denison, Producer, Chairman of the Board - USA Rice Federation
Ron Gonsoulin, Producer, Member - Louisiana Farm Bureau

Minnesota
Allen Anderson, Vice President of Governmental Affairs - Cenex Harvest States

Mississippi
Coley Bailey, Producer, Vice President - Delta Council
David Waide, President - Mississippi Farm Bureau

Montana
Kenneth L. Maki, Producer, President - Montana Farmers Union

Nebraska
Merlyn Carlson, Director - Nebraska Department of Agriculture
Ronald Maas, Executive Director - Nebraska Wheat Board

North Dakota
Robert Carlson, President - North Dakota Farmers Union
Roger Johnson, Commissioner of Agriculture - North Dakota Department of Agriculture
Nick Sinner, President - Red River Valley Sugarbeet Growers

Oklahoma
Scott Blubaugh, Producer
Terry Detrick, Producer, Vice President - National Association of Wheat Growers
Phillip Klutts, Producer, President - Oklahoma Farmers Union
Phillip McDaniel, Producer
Paul Muegge, State Senator

Ohio
Charlie Nash, President - Ohio Farmers Union

Oregon
Judy Rea-President - Oregon Wheat Growers League
Brent Searle, Special Assistant to the Director - Oregon Department of Agriculture
Jonathon Schlueter, Executive Vice President - Pacific Northwest Grain and Feed Association

Pennsylvania
Dr. Theodore Alter, Dean - College of Agriculture, Penn State University
Marion Long Bowlan, Producer, Executive Director - Pennsylvania Farm Link
Larry Breech, Producer
Vivian Brubaker, Dairy Producer
Harold Curtis, Dairy Producer
Barry Denk, Director - Center for Rural Pennsylvania
Guy Donaldson, Producer, President - Pennsylvania Farm Bureau
Keith Eckel, Producer
Dr. John Enck, Director - Bureau of Animal Health and Diagnostic Services
Louis Hawley, Dairy Producer
Samuel Hayes, Secretary - Pennsylvania Department of Agriculture
Robert C. Junk, Producer, President - Pennsylvania Farmers Union
Christine Kellett, Director - Agricultural Law Center, Dickinson Law School, Penn State University
Richard Kriebel, Producer - Agriculture Choice Farm Credit of Pennsylvania
Paul W. McPherson, Producer - Agriculture Choice Farm Credit of Pennsylvania
Ernest O. Miller, Producer
Richard Pallman, Producer
Marlin Rothermel, Producer
Kenneth L. Schlegel, Producer
Don Sherwood, Congressman - 10th District of Pennsylvania
David Speakman, Senior Vice President - Gertrude Hawk Chocolates, Inc.
Feryl Treichler, Producer
William Voegtlen, Producer
Barbara Wiand, Producer

South Carolina
David Winkles, Producer, President - South Carolina Farm Bureau

Texas
Vernie Glasson, Executive Director, Texas Farm Bureau

Washington
William Brookreson, Deputy Director - Washington Department of Agriculture
Jim Davis, Producer, Chairman - Central Washington Grain Growers Cooperative
Fred J. Fleming, Producer
Ron Gamache - Grower, Firstt Vice President - Washington Farm Bureau
Jim Haase, Director of Legislative Affairs - National Grange
Edward Hereford, Producer, Board Member - Cenex/Harvest States

Chris Hesse, CPA, Director of Taxation - LeMaster & Daniels
Phil Iaask, Producer, Chairman - Washington Wheat Commission
James Kile, Producer, Board Member - Cenex/Harvest States
Linda T. Marler, Producer
Walter Neff, Producer, President- Washington Wheat Growers
Alice Parker, Past President - Women Involved in Farm Economics
Tom Platt, Area Extension Agent - Washington State University
Jerry Snyder, Producer
James Zahand, Certified Crop Advisor, Vice President - Far West Fertilizer and Agrochemical
Association

Washington, D.C.
John Gilliland, Government Relations - American Sugar Cane League

Wisconsin
Robert Bass, Producer, Board Member - Cenex Harvest States
John Bobbe, Agricultural Economist - National Farmers Organization

Commission Meeting Attendees

Sam Funk, Illinois Farm Bureau
David Lindsay, National Grain and Feed Association
Jim Miller, National Farmers Union
Dr. Ron Knutson, Texas A&M University
Fred Woods, Texas A&M University
Dr. Ed Smith, Texas A&M University
Sonja Hillgren, Farm Journal Magazine
LeRoy Stoltenberg, AgState Group
Dan Delano, Rain and Hail L.L.C.
Keith Coble, Mississippi State University
Mark Nelson, Kansas Farm Bureau
Terry Francl, American Farm Bureau Federation
Fred Delano, Kansas State University Research and Extension
John Riley, House Agriculture Committee
Kristin Mitchell, Federal Reserve Bank of Kansas City
Randy Gordon, National Grain and Feed Association
Todd Kemp, National Grain and Feed Association
James C. Webster, The Webster Agricultural Letter
Mary Kay Thatcher, American Farm Bureau Federation
Jay Baumgartner, National Farmers Union
Doug Palmer, Reuters
David Lehman, Chicago Board of Trade
Brad Lubben, Kansas State University
Dan Cassidy, Missouri Farm Bureau

Grayson Daniels, Sparks Companies, Inc.
Dana McGilton, Representative Marion Berry
John McKissick, University of Georgia
Bobby L. Tyson, Assistant Dean for Extension - University of Georgia
Debbie Cannor, Representative Saxby Chambliss
Mark Edelman, Iowa State University
Chuck Abbot, Reuters
Randy Green, McLeon, Watkinson & Miller
Greg Kosarin, General Accounting Office
Kathey Ozer, NFFC
Kendra Asselin, Food Marketing Institute
Roger Runninger, Bloomberg News
Patricia Klintberg, Farm Journal