The 2002 Farm Bill Issues and Alternatives

Conference Highlights

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Acknowledgments

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Moderator - **David Lambert**, Professor and Chair, Department of Agribusiness and Applied Economics, North Dakota State University

Wheat - **Allan Skogen**, President, North Dakota Grain Growers Association

Feedgrains - **Wallie Hardie**, Former President, National Corn Growers Association

Sugar - **Jim Horvath**, President and CEO, American Crystal Sugar Company

Oilseeds - **Larry Kleingartner**, Executive Director, National Sunflower Association

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Moderator - **Won W. Koo**, Director, Center for Agricultural Policy and Trade Studies, North Dakota State University

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Roger Johnson, North Dakota Agriculture Commissioner
Sharon Clark, Deputy Commissioner, Minnesota Department of Agriculture
Luther Tweeten, Ohio State University
David Orden, Virginia Polytechnic Institute

The 2002 Farm Bill: Issues and Alternatives

Summary

This two-day conference focused on emerging issues related to the 2002 farm bill. Major themes discussed at the conference included (1) directions of U.S. farm programs under a freer trade environment, (2) U.S. farm economy under the 1996 FAIR Act, (3) alternative views of the 2002 farm bill, (4) implications of WTO negotiations and regional free trade agreements on the 2002 farm bill, (5) major issues in the 2002 farm bill: risk management, income safety net, food safety, and environment, and (6) the 2002 farm bill for wheat, feed grain, oilseed, and sugar producers. Speakers included government officials, such as the representative and senators of North Dakota, the governor of North Dakota, and the state agricultural commissioner; prominent scholars; and leaders of U.S. farm groups.

The first session focused on directions of U.S. farm programs under a freer trade environment. Neil Harl suggested a three-step solution for the 2002 farm bill: (1) authorize an economically rational, market-driven, producer-activated land idling program coupled with a farmer-owned commodity reserve; (2) impose a comprehensive limit of not more than $75,000 per person on all government farm program payments; and (3) use available federal funds for producer subsidies, conservation and funding of the competition title in the farm bill. Luther Tweeten stated that U.S. farm commodity program liberalization compatible with unilateral trade liberalization featuring a shift to recourse commodity loans and an end to crop insurance subsidies beyond administrative costs could add $10 billion or more to annual farm receipts. Tweeten believes that the unintended consequence of stabilizing prices "counter-cyclically" could be to increase variation in gross and net farm income as well as to provide incentives for excessive output and thereby a return to supply management. He also stated that if public involvement is unavoidable, risk in agriculture can be dealt with at low taxpayer cost using modest inducements by government for farmers to accumulate income in favorable years for use in years of lower income.

The U.S. agricultural economy under the 1996 FAIR Act was the focus of the second session. Abner Womack discussed projections made at FAPRI for the U.S. agricultural economy during the next decade under a continuation of the FAIR Act. His projections support the serious nature of the financial stress and lend support for modifications that would address periods of sustained low prices. Mark Drabenstott examined not just the agricultural economy, but the rural economy. While agriculture is an important anchor in the U.S. rural economy, he stated that the rural economic outlook is shaped by a much wider array of issues and opportunities. Drabenstott discussed a new framework for rural policy that includes a shift from commodity agriculture to product agriculture

Alternative views for the 2002 farm bill were the focus of the third session. Leland Swenson presented the views of the National Farmers Union, while Bob Stallman presented the views of the American Farm Bureau Federation. The National Farmers Union supports the establishment of limited government-owned, farm-stored commodity reserve programs. NFU supports a farmer-owned reserve program and a voluntary set-aside program. The National Farmers Union also supports targeting support toward small and mid-sized farms. Unlike the Farmers Union, the Farm Bureau does not support supply management or targeting benefits. The Farm Bureau favors continuing production flexibility contract payments and expanding the program to include oilseeds; re-balancing loan rates; including a counter-cyclical income support program; increasing stewardship initiatives; and opening foreign markets. Daryll Ray noted that the commodity portion of a farm program should include a farmer-owned stock program; it should hold excess productive capacity in reserve; and it should focus on potential domestic sources of demand growth.

The fourth session examined WTO and NAFTA implications. Greg Pompelli noted that it is necessary to recognize the importance of global markets and the importance of expanding those markets

through trade agreements. It is also necessary to understand that the choices made in domestic policies affect its capacity to negotiate, so it is important to ensure that our farm and trade policies are compatible. Edwin Young gave some examples of programs that qualify for the green box (non-trade distorting) exemption that could be important in the farm bill debate. Gary Williams stated that the more open borders and closer linkages among U.S., Canadian, and Mexican markets as a result of NAFTA imply that either less domestic policy intervention or different types of more costly intervention may be required to achieve the same level of U.S. price support than otherwise.

Major issues such as risk management, an income safety net, food safety, and the environment were discussed in the fifth session. Vernon Eidman discussed risk management. He examined two types of programs to enhance producers' ability to manage risk that could be included in the 2002 farm bill: crop and revenue insurance, and savings programs. Orden and Paggi discussed the impossibility of a perfect farm safety net. Their analysis suggests that safety net design is difficult, and they highlighted conundrums that face such a policy. Neal Hooker discussed food safety in the 2002 farm bill, commenting that fitting new food safety initiatives within the context of the farm bill makes it easier to deploy these new policy and regulatory programs. Keith Trego presented issues related to the environment in the farm bill. He stated that farm policy that includes wetland and grassland protection features (i.e., Swampbuster, Sodbuster) in combination with voluntary incentive programs such as the Conservation Reserve Program, Wetland Reserve Program, and the Wildlife Habitat Incentive Program have proven to be highly effective. To add to these successes, he also strongly endorsed the establishment of a USDA Grassland Reserve Program.

The views of certain commodity groups were presented in session six. Allan Skogan presented the views of the North Dakota Grain Growers Association. He supports a guaranteed payment similar to the current transition payment. The marketing loan provision of the 1996 FAIR Act should be maintained with only minor modifications, he believes; a counter-cyclical system constructed on a commodity by commodity basis should be included in the farm bill; and efforts should be made to expand trade. Wallie Hardie, former president of the National Corn Growers Association, focused on an important emerging market for crops: fuel. He stated that new farm policy must address the energy issue in ways not previously attempted. Jim Horvath, president and CEO of American Crystal Sugar, commented on the state of sugar. The 2002 farm bill, he stated, should maintain sugar prices at the 1985 levels for ten more years; it should establish government imposed domestic controls if stuffed molasses and Mexican imports are adequately controlled; it should also address a number of "cleanup" issues related to sugar. Larry Kleingartner of the National Sunflower Association noted that oilseed groups support decoupled income support for producers of oilseeds and other eligible crops in the 2002 farm bill. Decoupled income support must include full planting flexibility. He believes that the version of the farm bill passed in the House does not treat oilseeds equitably.

The final session was a panel discussion. Michel Paggi commented that what will be needed is a mix of programs that include: 1) policy that allows markets to work and facilitates adaptation to change; 2) policy that recognizes the changing structure of market relationships, increased value chains, trace backs, niche markets and the need to safeguard the free flow of information and maintain a competitive environment, and 3) policy that promotes increased investment in public sector R&D to ensure that the benefits of new technology are available to all producers and address the needs of all sectors of the industry. North Dakota Agriculture Commissioner Roger Johnson commented on the importance of fair trade, food safety, and country-of-origin labeling. The National Association of State Departments of Agriculture believes that the new federal farm policy must contain three core components: 1) counter-cyclical assistance, 2) cost of production insurance, and 3) stewardship initiatives. Sharon Clark emphasized the importance of trade, opening new markets, and leveling the playing field in existing markets. Luther Tweeten noted that the solution to agriculture's problems includes flexibility and the ability to change. He noted that markets are critical, and that trading countries do vastly better than those that do not trade. He also commented on how agriculture programs encourage production, and that income could be higher without these programs. David Orden discussed the peanut program in the farm bill as an example of the movement from the policy of supply and price control to something that is more market oriented.

During the keynote address, the luncheon addresses, and the dinner address, Senators Byron Dorgan and Kent Conrad, Representative Earl Pomeroy, and Governor John Hoeven gave their views on the 2002 farm bill. They all agreed that the House bill is a positive step forward and urged the Senate and Administration to move forward to get the bill completed as quickly as possible. Dorgan noted that the House bill does not provide adequate support for wheat, feed grains (especially barley), and minor oilseeds. He also noted that the farm bill is not just a safety net issue for family farmers, it is a national security issue. Conrad stated that a farm bill needs to be passed this year because the money in this year's budget will not be there next year. He agrees that the House bill is a substantial improvement over the FAIR Act, but it provides far less than what farmers have been receiving under disaster assistance bills. Pomeroy stated that in advancing this bill and committing resources to price support, the House made a major step forward in improving farm policy, and it is now up to the Senate to make a huge step forward in improving the House bill. Hoeven supports a long-term farm policy with the right kind of counter-cyclical safety net that puts farmers and ranchers into a position where they can plan and invest in their businesses and invest for the future so that in the long term they are not dependent on federal farm policy. He supports the House bill and urged the Administration to move forward.

The 2002 Farm Bill: Issues and Alternatives

Keynote Address

Senator Byron Dorgan

We face a challenge in the Senate to get a farm bill out of the Agriculture Committee and to the floor of the Senate. This challenge is tougher than it sounds. Some members of the Agriculture Committee, including a certain ranking member, think the Freedom to Farm Bill has worked fine, and they don't really want to change it too much. If the Senate Agriculture Committee does not produce a bill, we can bring the House bill directly to the floor of the Senate. That House bill is waiting at the Senate desk and we could call it to the floor. I would certainly be in favor of doing that if we cannot get a bill through the Senate Agriculture Committee. Bring the House bill to the floor, amend it on the floor, make it fair for wheat, feed grains and other commodities, and increase loan rates to where they ought to be, and then we will move forward to have a conference to get a farm bill done. **The bill passed by the House is a good step forward and is better than Freedom to Farm, but it also dramatically short changes wheat, feed grains (especially barley) and minor oilseeds.**

I think it is critically important to pass a farm bill now because if we don't do it between now and when the Congress adjourns, it won't get done until next spring, summer or next fall, and we'll go through another crop year with Freedom to Farm and the likelihood of no disaster assistance or no assistance to offset collapsed prices. So we really are pushing to see what we can do to pass a farm bill and do it in a way that improves what the House has done.

The farm bill is not just a safety net issue for family farmers, it is also a national security issue. We have two security issues in this country. One is the physical security, the security in America against physical attack. The second is economic security. It seems to me the first step with respect to economic recovery is to understand that recovery begins all across America on America's family farms and on America's main streets. Passing a farm bill helps promote economic recovery. From a standpoint of our nation's security, creating the circumstances by which family farms can survive is also in this country's security interest. Having a network of family farms all across this country creates a much more secure food supply than having these huge agri-factories. The introduction, for example, of bio-terrorism into these agri-factories would be much easier. I really believe we have both an economic security and also a national security argument for the farm bill.

With respect to international trade, I am all for free trade as long as it is fair trade. There have been consequences to the free trade agreements we have negotiated. America's trade policy seems to be going backwards. We have this huge merchandise trade deficit that is growing. We have to find a foreign home for much of what we produce in agriculture, and yet our trade balance in agriculture, which has been positive, has been cut in half in the last five years. Why? Because we are negotiating trade agreements that undercut our economic interest. **This country does not stand up for its own interest in trade. Now I want our country to knock down the barriers that exist so that our farmers can compete around the rest of the world.**

The president says that he wants the Congress to give him fast track or trade promotion authority. That is not going to happen if I can prevent it. Demonstrate that you can solve a few problems and then ask for the authority. Fast track is not a good deal for American farmers or for a trade balance in my judgement. The administration can negotiate trade agreements without fast track. We need to have a national discussion about how we begin to stand up for our economic interests. We do not need to be protectionists or build walls, but we should simply say to other countries that we demand fairness. Farm policy and trade policy are very important policies for North Dakota and the country, and I don't think either have gone very well in recent years.

Opening Remarks

Walter J. Armbruster, President, Farm Foundation

I am please to be here and for Farm Foundation to be a cosponsor of this conference. It is consistent with our Farm Foundation goals of exploring all sides of the issues. Farm Foundation has just released two publications directly related to the topic of this conference. First, "The 2002 Farm Bill: Policy Options and Consequences," a series of brief issue papers that look at various options for each of the titles of the farm bill and what their impacts would likely be. Second, "The 2002 Farm Bill: U.S. Producer Preferences for Agriculture, Food, and Public Policy" reports survey results from 27 states on what farmers think about various issues in the farm bill. Both publications are available on Farm Foundations's web site.

This conference will explore the major issues addressed in the farm bill. This first session is very important in setting the stage for the whole conference. The title says it all - "Directions of U.S. Farm Programs under a Free Trade Environment." **The challenge we face is to make sure that our farm policy aligns with the more open trade agreements that we have adopted as a policy mission and pushed so hard for other countries to join in with us.**

There are several important questions related to the new farm bill: How can we maintain a viable agriculture in the face of increasing supply capacity in some major producing countries? How can we adapt to demand for exports which can be impacted immensely by unexpected events beyond our influence? How can we get more equitable distribution of government payments across agriculture? How can we embrace environmental, food safety and other societal goals in agriculture policy?

Session I - Directions of the U.S. Farm Programs Under a Freer Trade Environment

Stabilizing the U.S. Agricultural Sector With Fewer Resources

Neil E. Harl, Iowa State University

It is important to consider the fiscal reality in moving forward with the 2002 farm bill. The events of September 11 have deepened the economic downturn, which was already occurring, resulting in less revenue flowing into the U.S. Treasury over the next several quarters. In addition, unanticipated expenditures to repair the damage on September 11, to ramp up the defense against terrorism, to fight a war in Afghanistan and to rescue vulnerable sectors of the U.S. economy (notably the air lines) are expected to be viewed by the Congress as high priority budget items. Therefore, fewer resources are expected to be available to stabilize the agricultural sector.

The 1996 farm bill has proved to be extremely costly as all-out production has driven prices to record or near-record lows and as Congress has attempted to replace lost income (thus eliminating whatever impact on supply might have come from low prices). The budget allocations to agriculture, which have set all-time records for the last two fiscal years, are neither politically sustainable nor economically desirable. The level of payments to large scale producers has understandably stirred a great deal of public resentment to federal subsidization of U.S. agriculture.

Congress faces three policy options—(1) continue the architecture of the 1996 farm bill and hope the necessary funding to avoid widespread economic and financial trauma will be available; (2) withdraw funding as needed with the result that net farm income would decline and land values would likely fall; or (3) return to the Secretary of Agriculture, as the surrogate CEO of the agricultural sector, some of the authorities swept away in the brief period of economic euphoria in 1995-1996, which would enable the sector to be stabilized with fewer appropriated funds.

Specifically, the author suggests a three-step solution for the 2002 farm bill—(1) authorize economically rational, market-driven, producer-activated land idling programs (such as the flex-fallow program) coupled with a farmer-owned commodity reserve; (2) impose a comprehensive limit of not more than $75,000 per person on all government farm program payments; and (3) use available federal funds for producer subsidies, conservation and funding of the competition title in the farm bill.

The structural transformation of agriculture is leading to demolition of free, open and competitive markets, which underscores the importance of a competition title in the farm bill.

Directions of U.S. Farm Programs Under a Freer Trade Environment

Luther Tweeten, Ohio State University

U.S. farm commodity program liberalization compatible with unilateral trade liberalization featuring a shift to recourse commodity loans and an end to crop insurance subsidies beyond administrative costs could add $10 billion or more to annual farm receipts. Multilateral trade liberalization featuring a move by all nations to non-trade-distorting decoupled payments could raise U.S. farm receipts $20 billion (including the $10 billion listed above). These additions to farming receipts could compensate for loss of AMTA payments, although such payments could be continued for (say) five years to ease farming adjustments during a transition period. In contrast to freer trade under acreage set asides used before the Uruguay Round that would lower farm receipts, freer multilateral trade under current programs with no set asides would be accommodated quite readily and would raise farming receipts because U.S. and world agricultural commodity prices would be raised.

The Federal Agricultural Improvement and Reform (FAIR) Act of 1996 and related policy changes in the 1990s brought fundamental reforms compatible with freer domestic and foreign markets. Chief among these reforms were a shift from coupled deficiency payments to decoupled Production Flexibility Contract payments, an end to set aside (supply management), and less engagement of government in commodity stock accumulation and export subsidies. These moves were consistent with the WTO "green box" freer trade policy.

Unfortunately, measures also were taken in FAIR and subsequent legislation that added to "amber box" outlays and, indeed, threatened the Uruguay Round commitment to reduce trade distorting policies. Converting commodity price support to recourse loans while ending all but administrative cost subsidies to crop insurance would go far to liberalize grain, oilseed, and cotton policies. Shifting dairy, peanut, sugar, and tobacco to similar programs would further position U.S. farm policy for free trade.

Unilateral or multilateral liberalization of trade could be attended by an end to U.S. commodity programs or, more likely, by a shift to decoupled payments. The 1996 FAIR Act provides a convenient platform of direct payments that can be targeted as deemed necessary to cushion adjustments of farmers to freer domestic and international markets. Unilateral termination of commodity programs including direct payments totaling $23 billion or 42 percent of net cash farm income in year 2000 (U.S. Department of Agriculture, June/July 2001) would appear to be traumatic to producers. However, **reduction of transition payments could be offset (for farm income) by rising farm commodity prices and receipts resulting from (1) less farm output attending lower loan rates and crop insurance subsidies, and (2) world farm commodity price-enhancement from freer global trade.**

It is tempting to return to target-price deficiency payment schemes to provide countercyclical support to farmers. A problem is that such supports would encourage farm production when the market is telling farmers to produce less. Another problem is that such support could increase instability in net farm income. Net income rather than price is the "bottom line" for farmers. Low farm prices tend to attend high farm output, providing the "self-insurance" of more stable farm receipts. Thus, **the unintended consequence of stabilizing prices "counter-cyclically" could be to increase variation in gross and net farm income as well as to provide incentives for excessive output and thereby a return to supply management.**

Most small farmers rely on off-farm income to alleviate the severe economic instability problem in agriculture. Large farmers can afford to deal with risk using the plethora of private risk management tools available to them. **If public involvement is unavoidable, risk in agriculture can be dealt with at low taxpayer cost using modest inducements by government for farmers to accumulate income in favorable years for use in years of lower income.** Young, new operators could be helped by government to build a stake of reserves in early years. The Internal Revenue Service at low administrative cost could administer such a program. Of course, other risk management subsidies would need to end if an IRA-type financial asset stabilization plan is to bring order to government risk management programs currently in disarray.

Finally, environmental problems of agriculture have "public goods" properties that the market alone will not address. The government has a long tradition of helping farmers deal with environmental problems. Such programs could be strengthened.

Session II - The U.S. Agricultural Economy Under the 1996 FAIR Act: How Has the Farm Bill Worked?

Performance of the U.S. Farm Economy Under the 1996 FAIR Act

Abner Womack, Seth Meyer, Gary Adams, and Scott Brown, FAPRI

The Food and Agricultural Policy Research Institute (FAPRI) briefed the Senate and House Agricultural Committees in February 2001 on the expected status of U.S. agriculture in the coming decade. These projections are based on a continuation of the Federal Agriculture Improvement and Reform (FAIR) Act, policies adopted in the World Trade Organization, average weather, trend technology growth, and economic conditions as projected by Standard and Poor's DRI.

This combination of factors suggests farm financial pressure will continue through the middle of this decade. It is anticipated that net farm income for U.S. agriculture will decline from an average of $47.4 billion (1996-2000) to $40.1 billion (2001-2005). The decline results from lower government payments and increased production expenses. In real terms, this would be equivalent to income levels experienced during the financial crises of the early 1980s. The projected financial conditions will certainly be of considerable interest as the debate for the 2002 farm bill continues.

Global income growth has been positive and is projected at a fairly strong pace, which implies continued strength from the demand side. Despite global income growth, several factors have hampered U.S. exports. The economies of developing countries in the Pacific Rim, which are major markets for U.S. commodities, contracted substantially and are only expected to recover to 1991-95 levels by the middle of this decade. Further complicating the trade situation is the appreciation of the U.S. dollar. The second half of the coming decade suggests opportunities to expand global trade with global real income growth projected at 3.3 percent, and many of the developing economies are projected to move back into growth ranges experienced in the late 1980s and early 1990s. A major concern still rests with projected exchange rates. The outlook reflects a recovery in U.S. trade, but with a declining trade share.

Crop prices projected for the 2001-05 period are at or near lows experienced over the previous 20 years. Contributors to the low prices include the rather positive global weather pattern experience recently and the unfavorable trade situation for U.S. products. **The projected prices and net farm income suggest that many of our traditional family farms will experience negative cash flows. The latter half of the decade paints a more optimistic picture for U.S. producers.** The demand side of the equation shows continued domestic strength with the export market showing signs of recovery for feed grains and cotton.

A starting point for the analysis of the 2002 Farm Bill is a valid baseline that reflects likely consequences for U.S. agriculture if the FAIR Act is maintained without additional government support. **Our results support the serious nature of the financial stress and certainly lend support for modifications that would address periods of sustained low prices.**

Rural America in the 21st Century: New Challenges, New Policies

Mark Drabenstott, Center for the Study of Rural America, Federal Reserve Bank of Kansas City

The United States is entering a crucial period for rural policy. While a new approach to policy is not yet evident, there is growing consensus that change is needed. The rural economy in the United States continues to be marked by highly uneven economic growth, with many rural places looking for new sources of economic strength. Meanwhile, public policy as it relates to rural America remains heavily focused on agriculture. **While agriculture is an important anchor in the U.S. rural economy, experts agree that the rural economic outlook is**

shaped by a much wider array of issues and opportunities. Thus, there is a widening gap between the challenges facing rural America and the current policy response. This gap has led many rural stakeholders and some policymakers to conclude that new approach to rural policy is inevitable.

A new framework for rural policy might be guided by three key principles. Instead of focusing on one sector, it might aim at rural places - and regions in particular. Instead of focusing on one firm (the farm), it might encourage clusters and networks of small and mid-sized rural firms. And instead of focusing on one-size-fits-all, it might invest in new competitive advantages in rural regions, recognizing the diversity that now represents the rural landscape.

Guided by these core principles, rural policy might include five building block programs. Entrepreneurship will be a cornerstone program, helping rural America grow more sustainable businesses. **Encouraging a shift from commodity agriculture to product agriculture will be especially important in the Heartland, where continued reliance on commodities points to only further hollowing out of rural economic activity.** Scenic amenities provide a natural anchor for new economic initiatives in many parts of rural America, and heritage amenities add to the list of places that might benefit. Technology will be a key to new digital companies and in redefining traditional companies. And efforts to raise the quality of life in rural America will be an essential complement to all other policy efforts.

In short, many signs point to innovation in U.S. rural policy in the period ahead. But how it will change and how quickly are big questions still waiting to be answered.

Luncheon Addresses

Senator Kent Conrad

A farm bill needs to be passed this year because the money in this year's budget will not be there next year. We face a number of hurdles to pass a bill this year. The bill that the House passed is an improvement from the FAIR Act, but it can be improved upon. Loan rates for wheat and barley in the House bill should be increased, and pulse crops are not dealt with.

The administration opposes taking action this year. They assure us that money for the farm bill will be there next year, but they don't say how much money will be there. Furthermore, it is critical to understand that the administration plays no role in writing the budget resolution, which means that they cannot provide any assurances of money being available for the farm bill. When the budget resolution is written next year, it will be under different circumstances. Defense expenditures and security expenses are expected to increase significantly. When the budget resolution was written this year there were projections of dramatic surpluses. Those surplus projections will not be there next year. Due to these different circumstances, less money will be available next year. **We have $74 billion above the baseline to spend this year, and we should use it or we will lose it.**

The House bill is a substantial improvement over the FAIR Act, but it is far less than what we've been receiving under the disaster assistance bills. North Dakota fares third worst among the states under the House bill in relationship to what we have been getting. Senator Lugar's proposal is an unmitigated disaster. Under his proposal, there would be a drastic cut in what North Dakota farms are receiving.

In regards to price support, we need to look at what our competition is doing. Support for agriculture in the European Union is much greater. The only way to level the playing field is for a strong farm bill that will give us leverage in negotiations to get a more fair result.

Representative Earl Pomeroy

Representative Larry Combest did an excellent job and provided effective leadership in the process of getting a farm bill developed and passed in the House. The House bill is constructed in ways that lend itself to significant improvements in the Senate. **At its core, the House bill avails itself of the additional resources that were in the budget resolution for agriculture and commits those resources largely for price protection.** The resources committed to agriculture, however, are part of a one-year deal. The administration wants to wait on the farm bill, and they don't approve of the House bill.

The Lugar proposal is distinctly different from the consensus we developed to preserve resources and use them for price support. This proposal takes an entirely different direction. It provides vouchers to buy revenue insurance. There is not meaningful coverage to be privately attained now or tomorrow under this concept of using vouchers to buy revenue insurance. If it was a risk the private sector could bear, it would have taken it already.

I was pleased to vote for the House bill. In advancing this bill and committing resources to price support, the House made a major step forward in improving farm policy. It is now up to the Senate to make a huge step forward in improving the House bill. The House bill needs more work. The House bill establishes price support through a very complicated mechanism that continues to divorce payments from activities actually occurring in farming. If we're going to keep public support behind taxpayer dollars going to farmers, we need to have it make sense. Furthermore, the bill is not sufficiently targeted, which means we could have vast amounts of money going to a particular entity. **We need more targeting and a better way of determining the formula.** The House bill gets it done, but it doesn't get it done well.

The administration is afraid that putting price support in this way might alienate trade. Emergency assistance payments have been deemed by the USDA to be amber box payments, which means that they are trade distorting. Trade distorting means that it is a production incentive. If the payment is after harvest, how is it an incentive for production? We think these payments should be green box, but they want to put them in the amber box to show good citizenship and to lead the world in unilateral "disarmament." We have tried this before, but it doesn't work. Europe bolsters their exports and takes market share at our expense. I disagree with the unilateral actions. We should bulk up with amber box payments and start negotiations from there. We should no longer take unilateral actions first, hoping that other countries follow our lead.

There is an interplay between the farm bill and the trade promotion authority that the president is seeking. Agriculture in this country is dependent on exports. We need to sell our products and we need trade deals to advance that goal. But confidence in the administration's policy is not strong. The administration is going exactly the wrong way in helping form farm policy, and they're saying alarming things in how they might advance agriculture in future trade talks. In light of what they're saying about agriculture and trade as we build a farm bill, confidence in this administration's policy had been totally destroyed. There may be significant defections of Agriculture Committee members on the trade bill.

We need to get a bill enacted this session so we can lock up the money, but the prospect of that occurring does not look good right now.

Session III - The 2002 Farm Bill: Alternative Views

The 1996 Farm Bill: Platform for the Future or Failed Experiment?

Daryll E. Ray, Agricultural Policy Analysis Center, University of Tennessee

Clearly, the 1996 FAIR Act was not passed with the expectation that prices would plummet to levels not seen since the 1970s. On the contrary, the expectation was for buoyant prices fueled by accelerated export growth, primarily due to per capita income growth in China and other less developed countries. Failing that, the expectation was that, with decoupled payments and without government market intervention, the price responsiveness of supply and demand would accommodate any shocks to commodity supply or demand. Finally, the primary impact of freer world trade was expected to be on the demand side of the international market for crops boosting U.S. exports.

These expectations were not realized. Real increases in crop prices occur only periodically, usually as a result of a multi-year spurt in exports caused by external political events. Also, despite the facts that farms are larger and that most of the ever-advancing technologies are embedded in inputs purchased from off-farm sources, the nature of aggregate crop supply appears to have changed very little since the inception of farm programs in the 1930s. Similarly, even though exports and industrial uses now make up a significant portion of crop use, total crop demand continues to be highly price inelastic. Also, the loosening of trade restraints has unleashed multinational input suppliers, marketers and processors to improve productivity and marketing efficiency of the agricultural sectors of U.S. crop export customers and competitors. The market has revealed that the combined price responsiveness of crop supply and demand does not result in market self-correction.

Future discussion of agricultural policy needs to take the following into account: 1) exports cannot be depended upon to absorb excess U.S. agricultural commodity production on a sustained basis, and 2) neither supply nor demand is sufficiently price responsive to clear the market of excess production - automatic market self-correction does not occur in aggregate crop agriculture.

The commodity portion of a farm policy should recognize the nature of aggregate major-crop markets and, in my view, should include a number of key elements:

1) **A farmer-owned-buffer stock program should be part of the policy mix to truncate the low and high tails of the price distribution caused by weather-based yield fluctuations.**
2) **Recognizing that public investment in "agricultural overproduction capability" is a good thing, mechanisms should be put in place to hold excess productive capacity in reserve in various short-term and longer-term forms.**
3) **Recognizing that domestic demand, not export demand, has been the source of demand growth for the last quarter century, the focus of policy incentives and more market development expenditures should be directed toward potential domestic sources of demand growth, including use of existing major crops and new crops for energy feedstock for utilities and vehicles.**

The 2002 Farm Bill: National Farmers Union View

Leland Swenson, President, National Farmers Union

The National Farmers Union believes the primary goal of commodity programs should be to provide economic stability and opportunity for producers over time that is consistent with a responsible view of market realities, resource sustainability and food security and safety issues. These programs must ensure a reasonable level of cash flow and producer income in the short term and achieve the goal of providing 100 percent of the full cost of production in the long run to maintain a sustainable, independent family farm production agricultural structure.

For the program crops, our recommendations represent a substantive departure from current policy in that we eliminate de-coupled payments (AMTA contract payments). Our counter-cyclical approach to economic assistance is based on an improved commodity marketing loan program and does not include other "supplemental income assistance programs." Additional components to this policy include limited commodity reserve programs and discretionary set-aside authority.

In order for the marketing loan program to be an equitable, less distorting and more effective component of the production agriculture economic safety net policy, it must be significantly modified. NFU believes the methodology for determining the level of each commodity loan rate should be reviewed to better ensure its effectiveness in enhancing producer economic and financial stability. This will require a more rational, consistent long-term approach that can be applied annually to determine loan rate levels avoiding the potential they will become so greatly distorted in the future. Use of historical prices or price relationships is a flawed loan rate adjustment mechanism. **The NFU supports a commodity marketing loan program based on a minimum of 80 percent of the full economic cost of production.**

By creating a more equitable production-based, commodity specific marketing loan program and eliminating de-coupled payments, NFU believes the limited planting flexibility provided in the FAIR Act could be expanded to allow full planting flexibility to producers.

NFU supports the necessary authority and funding to establish limited government owned, farm-stored commodity reserve programs. The purpose of these reserve stocks, which would be isolated from the commercial food market, would be to help ensure our long-term commitment to the continued development of the renewable fuels industry and provision of humanitarian nutrition assistance.

NFU also supports new authority and funding for the implementation of a farmer-owned reserve program limited to a maximum of about 20 percent of a producer's annual average production of program crops. The reserve stocks would be utilized as a supplement to the current crop insurance program.

Over the long term, no business or sector can continue to produce in a volume that exceeds the available market demand. **NFU supports providing the Secretary of Agriculture with discretionary authority to offer a voluntary set-aside program.** Participation incentives should be provided through an increase in the producer's commodity marketing loan rates for the crops in production relative to the amount of land idles by the producer.

Our analysis indicates that a combination of program crop components including improved commodity marketing loan rates, limited reserves, and a voluntary set aside program can significantly increase the realized net income for producers over the current baseline projections. We believe this approach to U.S. commodity programs and agriculture policy represents a more equitable, less distorting and fiscally responsible method to provide economic security and opportunity to U.S. farmers and rural America.

The 2002 Farm Bill: American Farm Bureau Federation Views

Bob Stallman, President,
American Farm Bureau Federation

The Farm Bureau's vision of farm policy is a profitable agriculture strengthened by growing markets, value-added efforts, and voluntary incentive-based conservation efforts. We recognize, though, that many factors make this vision unlikely, at least for the short term.

The following are the policy goals of the American Farm Bureau Federation. We favor continuing Production Flexibility Contract payments to current contract holders and expanding the program to allow oilseed producers to participate. Loan rates should be re-balanced. We favor a counter-cyclical income support program to supplement insurance products. The dairy price support program should be extended, and the sugar program should be extended and modified.

We recognize the increased emphasis and interest in farm and ranch families to conserve resources. We see a societal benefit in these conservation practices, and we look to Congress to reward farmers and ranchers for increased stewardship practices.

Extra funding should be made available for opening foreign markets for exports, for developing programs that advance agriculture's ability to produce energy, and to encourage rural economic development. Increased funding should also be available to agricultural research to better meet the needs of production agriculture.

The bill that the House passed is a solid step forward. The House did a good job of balancing competing interests with the given budget to produce a workable farm bill. The House bill is not exactly what we want, but it does include much of the Farm Bureau's goals, and we strongly support it.

Senator Lugar's proposal is too much of a revolutionary step; it is too sharp a change given the current low market prices. This proposal provides less safety net potential and provides far less money.

We are encouraged that there has been no movement in either the House or the Senate for supply management, which is something we do not support. There is universal recognition for environmental concerns; we expect to see progress in this area. We also see an awareness of the importance of export enhancement.

Session IV - The 2002 Farm Bill: WTO and NAFTA Implications

Farm Bill and Trade Issues: An Overview

Greg Pompelli, Economic Research Service, USDA

For many observers, the success of farm policy in recent years has rested on the overall success of U.S. exports. However, the current discussion of farm bill and trade issues recognizes a much broader range of measures against which the success of farm policy will be judged. These discussions build on the fact that farm policy and trade issues do not exist in a vacuum, and recognize that many global and domestic factors heavily influence the economic success of the entire U.S. food and fiber sector. Macroeconomic conditions, a growing global middle class, increasing competition, greater consolidation along the supply chain, diversity within the farm sector, and biotechnological developments are just a few of the many factors that influence domestic and international markets.

Given the largely uncontrollable context within which farm and trade policies are discussed, it is important to acknowledge that trade opportunities remain the primary source of growth in the U.S. food and fiber sector. With 96 percent of the world's potential consumers of U.S. agricultural goods living and buying outside our borders, market access is critically important to U.S. agriculture. At the same time, it is also important to acknowledge that U.S. farm policy has been and is based, in part, on agriculture's special production and market characteristics, and the many problems that these characteristics present. Those characteristics are changing, and so are the problems that face the U.S. farm sector.

It is unfortunate that farm bill and trade issue discussions often center on a deceptively simple comparison, e.g., the extent to which the expected value of trade agreement-related market access compares to the expected value of farm program benefits. It is unfortunate because trade agreements and farm programs do not have to be viewed as exclusive solution options for food and fiber sector problems.

As farm bill and trade discussions move forward, it will be helpful to consider the following principles as guides for our future steps. **We need to recognize the importance of global markets, and the importance of expanding those markets through trade agreements. We also need to understand that the choices we make in our domestic policies affect our capacity to negotiate, so we need to ensure that our farm and trade policies are compatible.** At the same time, we must commit to future growth through increased marketing efforts and enforcement of existing trade agreements.

WTO Implications for the 2002 Farm Bill

Edwin Young, Economic Research Service, USDA

WTO concerns are adding a new dimension to the domestic farm policy debate. In the 1995/96 farm bill debate, these concerns did not play a large role as the debate focused on efforts to reduce the budget deficit and a desire to reduce government's influence on production. Weak markets and low prices changed the 2001/2002 debate.

Freer trade is important to U.S. agriculture. With the productivity of U.S. agriculture growing faster than domestic food and fiber demand, U.S. farmers and agricultural firms rely heavily on export markets to sustain prices and revenues. Export revenues account for 20 percent to 30 percent of U.S. farm income. Research shows that U.S. agricultural welfare would increase by $13 billion annually, and agricultural prices would rise by 12 percent with total trade liberalization. U.S. imports have increased steadily over time as consumer demand for increasingly diversified foods has expanded. Imports account for about 9 percent of domestic food consumption.

In its 1998 notification to the WTO, the United States identified $10.4 billion of trade distorting domestic support, well below its permitted ceiling of $20.7. Low commodity prices beginning in 1998 led to large increases in direct payments, which made them an important component of the AMS in recent years. Benefits from other programs, such as irrigation, grazing, credit, and crop insurance subsidies and market loss assistance payments, are non-product specific and are currently excluded from WTO commitments. Other programs such as production flexibility contract payments and CRP payments are excluded from the AMS because they are deemed to be minimally trade distorting.

WTO criteria exempt policies from explicit limits on the amounts of the subsidies if they are publicly funded and have no effect of providing price support. **Some examples of programs that qualify for this "green box" exemption could be important in the farm bill debate including:**

1) **decoupled direct payments to producers that are based on production in a fixed historical base period and are not related to or based on the prices, domestically or internationally, applying to any production undertaken in any year after the base period;**

2) **payments for relief from natural disasters where loss exceeds 30 percent of the average production for a three-year average in the preceding five years, excluding the high and low production;**

3) **government participation in income insurance and income safety-net programs for losses in excess of 30 percent of average gross income that compensate for less than 70 percent of the income loss; and**

4) **payments for environmental programs that are limited to the extra costs or loss of income involved in complying with the environmental programs.**

NAFTA and Agriculture: Implications for Changes in U.S. Farm Policy

Gary W. Williams, Texas A&M University

Despite the optimism of proponents and the concerns of critics, NAFTA has had a limited direct impact on either U.S. agricultural trade with Canada and Mexico or the pattern of agricultural production and processing in the United States. NAFTA has primarily stimulated U.S. imports of specific Mexican products and locked in U.S. trade gains achieved through the Mexican unilateral trade liberalization that began in the mid-1980s. **The more open borders and closer linkages among U.S., Canadian, and Mexican markets as a result of NAFTA imply that either less domestic policy intervention or different types of more costly intervention may be required to achieve the same level of U.S. price support than otherwise.** Also, some policy choices may be less effective while others are less costly in achieving a given level of price support than in the absence of freer trade under NAFTA.

For U.S. export commodities, a reduction in import restrictions by member countries under NAFTA increases U.S. market prices and reduces the amount and cost of any type of intervention required to achieve a given level of price support. Elimination of import barriers under NAFTA also increases the U.S. export demand elasticity which reduces the effectiveness of supply management programs as price support tools while increasing the cost of a given level of price support. Arbitrage within NAFTA, however, could make attaining and maintaining effective price support more difficult. Of course, NAFTA requires member countries to share in market adjustments to changes in U.S. farm policies to a greater extent than otherwise might be the case. Research suggests that the adoption of H.R. 2646 would increase the production and reduce the prices of grain and cotton modestly. NAFTA would indirectly reduce the cost of the program to U.S. taxpayers by truncating the downward potential of market prices while increasing the competitive pressure on Canadian and Mexican markets.

For U.S. imported commodities, NAFTA eliminates import quotas as a viable price support policy option and forces the substitution of policies that shift the support costs from consumers and foreign producers to U.S. taxpayers. Mexican access to the U.S. sugar market under NAFTA, for example, renders the sugar quota ineffective and is forcing nonrecourse loan forfeitures. The U.S. Government has resorted to other means of shoring up sugar prices. Access of Mexican sugar to U.S. markets would also render the no-cost sugar marketing controls proposed by HR 2646 ineffective in supporting price.

NAFTA also implies that U.S. farm policy must be responsive to additional competitive threat and opportunities such as competitive investments by Mexico and Canada in new technology research and development, the enhanced opportunity to promote U.S. exports of agricultural products in Mexico and Canada, and the increased effectiveness of development assistance to Mexico to foster long-term economic growth and market development.

Dinner Address

Governor John Hoeven

We need a long-term farm bill for the good of the country, which means we need a farm bill with a long-term counter-cyclical safety net. We want to encourage young people to get into the business of farming, and we want our farmers investing not only in production agriculture, but also in value-added agriculture. **Value-added agriculture offers farmers opportunities to market and process the crops they grow, which would create jobs in rural America and offer significant income opportunities for our producers.** In the long term, value-added agriculture offers the opportunity for producers to reduce dependance on federal farm policy. Any businessman needs to be able to invest in their business and plan for the long term. **The objective of a long-term farm policy with the right kind of counter-cyclical safety net is to put our farmers and ranchers into a position where they can plan and invest in their businesses and invest for the future so that in the long term they are not dependent on federal farm policy.**

In the future we need to be a high quality producer of food, and farmers need to be vertically integrated in the food production system so that they are gaining revenue not just from growing crops and raising animals, but also from processing and marketing those crops and animals. Value in the food chain is largely gained from processing and marketing, not production.

I support the House bill and hope that something similar is passed in the Senate, maybe with some enhancements, and is enacted into law. The House bill blends three approaches to enhance farm revenue security. First, a direct decoupled payment, like an AMTA payment, reduces cash flow risks. Second, a marketing loan provides price protection for actual production. Third, a new counter-cyclical payment which protects farmers from low prices. The House bill combines these mechanisms to provide income security. **The ten-year House bill is a long-term bill that gives farmers opportunities to plan and invest for the future. This bill provides continued planting flexibility, which is very important to producers so they can grow for the market. The counter-cyclical payments help producers weather the broad market swings that are common in the commodities grown in North Dakota.** The bill encourages young people to stay on the farm because they can plan for the future and can depend on a reliable stable market. The bill also provides funding for the development and marketing of value-added products. It provides measures for rural economic development and is an effective economic stimulus package.

Only about 2 percent of the nation's work force is directly involved in farming or ranching, but about 30 percent benefit from farm and ranch production. Farm policy is also essential for national security. We have become increasingly dependent on foreign oil. We don't want to have the same discussion about food production and food supply in the future that we are now having about oil and energy.

The administration indicates they are committed to a good farm bill. They contend that money is there, and they are committed to making sure the money is available for a good farm program. However, they feel it will take until next year to get the kind of farm bill they want in place. They believe it will take that long to build a consensus in Congress for the farm program, and they want to make sure certain issues are well addressed, such as conservation measures, adequate funding for rural development, and more support for some commodities. The administration is still focused on a five-year plan, while I believe we need a ten-year plan. We have seen some willingness for the administration to get engaged in the process. We need to encourage them to move forward.

Session V - Major Issues in the 2002 Farm Bill

Major Issues in the 2002 Farm Bill: Risk Management

Vernon R. Eidman, University of Minnesota

Expanded offerings and substantial premium subsidies have increased the use of crop yield and revenue insurance over the past decade. The list of crops for which insurance is available has grown from 50 in the early 1990s to more than 100 in 2000. The crops covered with federally subsidized insurance include not only field crops but also many types of fruits, vegetables, nuts, certain specialty crops, nursery crops, and rangeland. Total acreage insured increased to over 200 million in 2000 and 2001, with over 40 percent insured with revenue products.

Some have recommended that the 2002 Farm Bill provide increased subsidies for crop and revenue insurance. **A major criticism of subsidized insurance is that it leads to distorted production incentives on individual farms, particularly in areas with high subsidy rates.** Subsidy rates tend to keep land in production of crops receiving larger premium subsidies, when the land would be moved to alterative uses without the subsidized insurance premiums. This retards supply adjustment at the farm and at the regional levels, contributing to overproduction. These subsidies tend to be bid into land values, making the United States less competitive in export markets. An additional problem of the existing premium subsidies is that they are proportional to the size of the premium, providing the largest subsidies to the high risk areas.

While it is unlikely the current insurance industry can be maintained without any premium subsidies and reinsurance, a study is needed to identify the level required to maintain a broad range of crop yield and revenue insurance products on the market. If the required level is less than the current subsidy being provided, the remainder of the premium subsidy could be converted to a voucher for each farm. The farm operator could use the voucher to purchase a range of risk management tools, such as various crop and revenue insurance products, futures contracts, options, and other risk management alternatives. **Providing each farm with a voucher for a fixed dollar amount regardless of the crops produced is likely to result in less distortion of planting and other decisions on the farm.** Vouchers that are less directly tied to crop production should also have less impact on land values.

Savings accounts are a second risk management tool that some have suggested be incorporated into the 2002 Farm Bill. While many variations have been proposed, the general concept is to provide a legal basis for farmers to place before-tax dollars into a savings account during high income periods and have the flexibility to withdraw them when they are needed.

Many studies have confirmed that farm families, even with relatively modest gross sales, rely on savings and liquidity to help carry them through low income periods. However, **it seems unlikely the proposed savings accounts would greatly enhance the risk management tools already available to farmers.** The reason is that only a small proportion of farm families have enough income during good income years to remove a substantial sum of money from their cash flow and set it aside in a savings account. To be an effective tool, the new accounts would need to entice money from household consumption and investment in the business, not just divert funds from another form of savings. Most farm families would need to shift any money placed in the proposed savings accounts from another form of savings. Thus it seems the proposed accounts are unlikely to increase net savings, except among farm operators paying high marginal tax rates.

The Impossibility of a Perfect Farm Safety Net

David Orden, Virginia Tech, and Mechel Paggi, Congressional Budget Office

The past two years have seen an intense search launched for a safety net policy to replace the annual supplemental payments made to farmers in response to low prices since 1998 with a long-term legislated counter-cyclical support program. Multiple objectives have been articulated for the new safety net—among these, that it avoid interventions in planting decisions, not distort market signals among crops, not stimulate additional production, be consistent with WTO commitments, allow one-time or continuous updating of the base acreages or yields eligible for payments, and that the benefits go to farm producers, not land owners. It is hard to argue that designing a safety net with all of these attributes is feasible, because any safety net will unleash economic responses in the affected markets.

This paper focuses on several specific aspects of the difficulty of farm safety net design. First, we lay out a basic economic argument to show that a farm safety net must affect either production levels or land values and rents. Second, extensions and empirical evidence about this basic argument are discussed, including wealth and base-building effects on production even of decoupled income transfers, measures of the stochastic impacts of alternative support and safety net policies on farm incomes and welfare, and assessments of the effects of policies such as loan rates that are coupled to production. Third, these economic considerations are drawn upon to assess several of the safety net proposals put forward in farm bill hearings last winter and spring and those included in the Farm Security Act of 2001, H.R. 2646, passed by the House of Representatives on October 5, 2001. Our analysis suggests that safety net design is difficult. Despite the popularity of building an enhanced safety net into the next farm bill, we highlight three conundrums facing such a policy. **Decisions that keep the safety net decoupled from current production decisions also reduce its counter-cyclical specificity. Economic effects are going to be felt either in higher values of land assets that serve as a basis for payments or through increased production that drives down market prices. And because effects of any support program induce economic responses, policymakers will continuously be under pressure to provide more support. These conundrums suggest that options be considered that differ from permanently maintaining targeted levels of crop prices or aggregate income.** We pose the question of whether limits should be placed on the number of years that farmers can draw on government support, recognizing that raising such a question runs counter to current policy momentum.

Food Safety in the 2002 Farm Bill

Neal H. Hooker, Ohio State University

The 2002 Farm Bill provides an opportunity to enhance food safety. This will involve a rethinking of farm policy. U.S. food safety policy has historically focused beyond the farm gate. Like its predecessors, the 1996 *Federal Agriculture Improvement and Reform Act* has no specific food safety language. Expanded scientific knowledge of effective pathogen reduction strategies, developments in information technology that permit cheaper identity preservation schemes, and a heightened demand for food safety by consumers all suggest the time is right for change.

New food safety policy should follow the central principles of the farm bill. That might lead some to ask: "Why the farm bill? Isn't putting the safeguarding of food with USDA like having the fox guard the henhouse?" The point here is that USDA and the farm policy process are already set up to work on these industry issues. The key is to provide them with some strict guidance toward that mission. **Fitting new food safety initiatives within the context of the farm bill makes it easier to deploy these new policy and regulatory programs.** But at the same time, there are several pressing policy alternatives – such as the creation of a single food safety agency – that are not appropriate for the farm bill given its production focus. Those need to be separated and dealt with independently.

Food safety issues addressed in the House in late October include priority areas for funding, the support of biotechnology risk analysis, and country-of-origin labeling requirements for perishable agricultural products. Additional funds target the protection of the U.S. food supply from bioterrorism and livestock diseases. Support for biotechnology risk assessment is included. Developing nation needs for agricultural biotechnology research are considered through the creation of a competitive grants program. The Secretary of Agriculture would be directed to have the National Academy of Sciences complete a risk management report on genetically engineered foods with recommendations on data needs, Federal monitoring and regulatory structures needed to assess human health consequences of those foods, and a public risk communication program. The House version would also require point-of-sale country-of-origin information for some perishable agricultural commodities.

The Senate discussed creation of a biotechnology and agricultural trade program and investments in food safety and agricultural infrastructure. The trade program focuses on education to enhance foreign acceptance of agricultural biotechnology and biotechnology based agricultural products. Funds may be allocated for biosecurity planning and response to reduce the vulnerability of the U.S. food and agricultural system to chemical or biological attacks. New language is also included which facilitates the management of joint research, education and extension programs between USDA and other agencies. A key food safety innovation in the proposal is the creation of a $400 million "Agriculture Infrastructure Security Fund" aimed at safeguarding against animal and plant diseases and pests; ensuring the safety of the food supply; and providing sound science in support of food and agricultural policy.

There are several key differences between the two acts that must be resolved prior to completion of the farm bill. Funding levels and allocations within the overall budget require considerable changes. The overall importance of biotechnology risk analysis, bioterrorism threats, and general concerns over agricultural and food security are all issues that receive more attention in the Senate version and are closer to the Administration's policy goals. The inclusion of country-of-origin labeling in the House, but not Senate, version requires further assessment. Finally, the two acts have divergent language on infrastructure needs.

The postponement of the completion of the farm bill may resolve many of these differences if certain emergency, or immediate, infrastructure needs presented in the Senate act are separately funded by Congress in response to the Sept. 11 attacks. This will permit the farm bill legislation to focus on the longer-term requirements for agricultural and food infrastructure improvements. However, it is unclear if current budget provisions to fund the bill will be available should the process take much longer to complete. This may jeopardize the opportunity to enhance food safety.

Environment

Keith Trego, North Dakota Natural Resources Trust

No single influence, government or private, has manifested greater impacts on the nation's landscape and its wildlife assets than federal agricultural policy. The conservation titles and provisions of the current and past "farm bills" offer powerful tools for achieving natural resource conservation, including wildlife benefits, on an unprecedented scale. Because the farm bill's programs do not focus solely on wildlife conservation, their effects do not always optimize wildlife benefits. The development of a new farm bill in 2002 offers important opportunities to further improve programs that restore, enhance and protect wildlife habitats on private lands. The following are areas of focus that the Northern Great Plains Working Group considers critical to the conservation of our nation's resources.

1. **Reauthorize Swampbuster provisions as provided for in the 1996 FAIR Act.**
2. **Revise and enhance the recently enacted "Farmable Wetlands Pilot" program to provide agricultural producers greater access and incentives to protect wetlands in cropland.**
3. **Continue the coequal status of wildlife with other natural resource benefits in delivery of all farm bill conservation programs.**
4. **Reauthorize CRP and expand the enrollment cap to 45 million acres.**
5. **Continue management of CRP as idled cover.**
6. **Retain National Conservation Priority Area status for CRP in the Prairie Pothole Region.**
7. **Reauthorize and strengthen Sodbuster provisions to increase protection of native prairie.**
8. **Establish a Grasslands Reserve Program that provides 30-year, 50-year, and perpetual-term contracts.**

9. **Expand the Wetland Reserve Program (WRP) enrollment cap to accommodate enrollment of 250,000 acres per year through the duration of the Farm Bill.**
10. **Retain WRP options (permanent, 30-year easements and 10-year agreements) and payment procedures (payment for easement and additional payment for wetland restoration work) as provided for in the 1996 Farm Bill.**
11. **Continue roles of the Natural Resources Conservation Service as the delivery agency for WRP , in consultation with the U.S. Fish and Wildlife Service, as provided for in the 1996 Farm Bill.**
12. **Increase funding for the Wildlife Habitat Incentives Program (WHIP) to $100 million annually.**

Most of the conservation programs enjoy broad support within both the wildlife and agriculture communities. We consider farm bill conservation programs as one of the best means to put federal dollars directly into the hands of small family farmers and ranchers and at the same time provide important and substantial natural resource benefits to the environment and the public at large. **Farm policy that includes wetland and grassland protection features (i.e., Swampbuster, Sodbuster) in combination with voluntary incentive programs such as the Conservation Reserve Program (CRP), Wetland Reserve Program (WRP), and the Wildlife Habitat Incentive Program (WHIP) have proven to be highly effective.** To add to these successes, we also strongly endorse the establishment of a USDA Grassland Reserve Program.

Session VI - The 2002 Farm Bill: Issues and Alternatives for Selected Commodities

Wheat

Allan Skogen, President,
ND Grain Growers Association

The following is a summary of the recommendations for the next farm bill prepared by the National Association of Wheat Growers (NAWG) and the North Dakota Grain Growers Association. NAWG recommends that the next farm bill build upon the success of the 1996 FAIR Act by keeping the basic farm support structure in place and that nothing be done to jeopardize the planting flexibility of "freedom to farm."

The new farm bill should include a guaranteed payment similar to the current transition payment equal to the amount provided for in 1999; it should expand the eligibility for a guaranteed payment similar to the current transition payment to oilseed producers; the current historical base for calculating support payments should be maintained; an expansion of base farm support programs to previously ineligible crops should not be included; the payment limitation on all fixed support payments should be eliminated; and the program should include $6.278 billion annually of budget authority for fixed payments.

The marketing loan provision of the 1996 FAIR Act should be maintained with only minor modifications. **The new farm bill should eliminate the payment limitation on all commodity marketing loan gains and LDPs; it should include commodity marketing loan caps and floors, and should include $3.7 billion annually of budget authority for commodity marketing loans.** The program should retain the wheat marketing loan as a nonrecourse loan; it should establish the barley marketing loan independently of the corn marketing loan reflecting 85 percent of the all barley price; and it should establish the grain sorghum marketing loan rate equal to the corn marketing loan rate. NAWG recommends that the new farm bill includes provisions that would allow producers to "lock in" their LDP rates up to 60 days prior to reporting harvested production; NAWG recommends making the payment in lieu of an LDP on grazed-out acres permanent.

A counter-cyclical support system constructed on a commodity-by-commodity basis with $4.273 billion of annual budget authority should be included in the new farm bill.

Presidential trade promotion authority should be approved this year, and the U.S. sanctions policy should be reformed. **The Foreign Market Development program should be funded at no less than $43.25 million annually, and the Market Access Program and the GSM programs should be funded to the fullest extent possible.** NAWG also recommends re-authorizing EEP and expanding the program's flexibility.

NAWG supports expanding multi-peril crop insurance coverage, eliminating the CAT and NAP programs, and increasing the APH yield plug to 85 percent.

The 36.4 million acre cap on CRP enrollment should be maintained, allowing existing grass stands, regardless of species, as appropriate CRP land cover. The Environmental Quality Incentive Program (EQIP) and other similar conservation programs should be improved to provide greater local flexibility and equality among all agricultural sectors. NAWG recommends pursuing the possibility of providing "green payments" to farmers actively engaged in conservation practices only if funds are made available above and beyond that which is needed to secure the farm safety net and improve other existing programs.

NAWG strongly believes that the farm program changes it has outlined would address the most pressing needs of the nations's agricultural producers. Wheat producers support these changes and believe they are equitable - the plan would restore the historical relationships among program crops; financially responsible - the plan would spend only $6.667 billion over the current projected baseline; counter-cyclical - the plan would increase payments when needed and eliminate them when prices recover; and WTO compliant - by placing all additional spending in either the green or blue box or by limiting additional amber box spending to well below the established limits.

Feedgrains

Wallie Hardie, Former President,
National Corn Growers Association

As we consider the issues and alternatives of new farm legislation it is necessary to ask the question, "Are we capturing the value of our agricultural bounty?" It appears our nation's corn crop will come in at somewhere around 9.5 billion bushels. Is this a problem? No! This is a wonderful resource if it is used wisely.

Modern ethanol plants extract 2.7 gallons of ethanol per bushel using the starch portion of the kernel. A valuable feed-product remains that has one-half the nutritional value of a bushel of corn. Every 2 bushels of corn run through an ethanol plant produces 5.4 gallons of ethanol and a bushel of corn feed equivalent. So in a practical sense a bushel of corn equals 5.4 gallons of ethanol. The value of corn at my local elevator is $1.50 per bushel. The value of ethanol at the wholesale level is $1.25 per gallon; $1.25 x 5.4 gallons = $6.75; $6.75 divided by $1.50 is what I call the ethanol-corn ratio: in this case 4.5-1. One dollars' worth of corn makes $4.50 worth of ethanol. This is a textbook example of value added and is the reason why thousands of farmers who have invested in cooperatively owned ethanol plants will be able to double the value of their corn crop this year.

The implications of the above illustration are significant. **The economics of energy and agriculture are evolving to a point where we can have good markets for our products by targeting three uses – FOOD, FIBER, and FUEL.**

A University of South Dakota study determined the state of South Dakota could create 500 million dollars of new wealth annually and 10,000 new jobs if they would locate ethanol plants next to large feed lots. A project that captures cattle manure and produces methane gas in an anaerobic digester to power an ethanol facility will soon be built near Pierre, SD. This is an example of a new agricultural era where farmers will pool their resources to add value to their crops.

New farm policy must address the energy issue in ways not heretofore attempted. Linkages between USDA and DOE must be established to avoid the bureaucratic tendency to go down separate paths.

Producing raw commodities is a tough business. Profit margins are razor thin. The best policy ideas recognize this reality and provide the framework for the opportunity to turn cheap commodities into valued products. Entrepreneurs see the boundless opportunities in rural America – good policy can accelerate the process.

Sugar

Jim Horvath, President and CEO, American Crystal Sugar Company

Sugar (either beet sugar or cane sugar) is produced in 102 countries. Seventy-five percent of the sugar is consumed in the country of origin, while the rest moves on to the "world" market. All exporting country governments support their sugar industry with a number of different policy measures. The current farm law in the United States provides a floor for sugar prices which has not changed since 1985. The retail sugar price in the United States is 20 percent lower than the average retail sugar price in developed countries.

Because of the high levels of support in each country for sugar, the world sugar price is a dump price that is only about 60 percent of the world cost of production. "World market" sugar is foreign government subsidized. "World market" sugar is manufactured with lower environmental standards and labor costs, and is sold well below the cost of production. If the importation of "world market" sugar were not limited, domestic producers could not survive. The United States currently imports about 15 percent of its needs.

Of the 40 sugarbeet producing countries, cost of production in the United States is second lowest. The United States ranks 26th out of the 63 sugarcane producing countries in cost of production, and 28th out of 102 countries in cost of production for all sugar. This indicates that the United States can compete on a cost basis with other sugar producing countries.

The U.S. sugar industry is facing a number of challenges: domestic production has increased dramatically in the last several years; imports increase due to WTO requirements; stuffed molasses has been imported with no restrictions; and imports from Mexico will increase due to NAFTA requirements. The U.S. market was oversupplied with sugar, and prices collapsed. Domestic production decreased recently, and stuffed molasses has been stopped by a lawsuit. The threat of excessive imports from Mexico still remains.

There needs to be legislation to eliminate stuffed molasses of all forms. The sugar provisions of NAFTA should be renegotiated. The renegotiation should eliminate the falling Tier II tariff and allow Mexico a fixed reasonable level of access to the U.S. market, and the changes should be permanent. Also, the 2002 farm bill should establish a government imposed domestic marketing controls program. There may be solutions to the current problems, but long-term challenges exist. These challenges include the Free Trade Area of the Americas, a new round of WTO, and Cuba.

The 2002 farm bill should maintain sugar prices at the 1985 levels for ten more years. The farm bill should establish government imposed domestic controls if stuffed molasses and Mexican imports are adequately controlled. The new farm bill should also address a number of "cleanup" issues.

Oilseeds

Larry Kleingartner, National Sunflower Association

Historically oilseeds were outside of the farm program with the exception of a loan program for soybeans. That changed only slightly in the 1991 farm bill when all oilseeds received a marketing loan. Oilseeds chose not to be part of the former farm programs that included deficiency payments but required setting a percentage of base acres to fallow. Thus, when the FAIR Act was written there was not a formula for including oilseeds in the AMTA payment structure. Thus, the loan rate for oilseeds was increased slightly compared to the 1991 loan rates. There has been criticism that oilseed loan rates have skewed planting decisions. However, when looking at stocks-to-use ratios for the last five years, soybeans average about 10 percent while sunflowers are below 5 percent. That is well below the ratios of other crops.

Oilseed groups support decoupled income support for producers of oilseeds and other eligible crops in the 2002 farm bill. Decoupled income support must include full planting flexibility. The version of the farm bill passed in the House does not treat oilseeds equitably. The oilseed loan rates are reduced while the fixed payments and target prices for oilseeds do not reflect the traditional relationship to corn and wheat. These inequities must be rectified in the Senate to insure equity among all producers.

Session VII - A Panel Discussion: For Better Farm Economy Under a Freer Trade Environment

Mechel S. Paggi, Principal Analyst, Congressional Budget Office

The key to a better agricultural economy in the United States in the future will be the same as it has been for every generation of American farmer and rancher: the ability to adapt to change. Not only the ability to adapt to a changing trade environment, but also to dramatic changes in the entire set of forces that influence the well being of those involved in all facets of agriculture. Today agriculture faces rapid advancements in information, biological and other forms of technology; increasing globalization of markets; and consumers who demand increasing product specificity, not only in product attributes but in how products are produced as well. These changes spill over into effects on the structure of markets and institutions that coordinate and regulate the exchange of agricultural products and their transformation in place, time and form. Therefore, the proper mix of government policies and programs for agriculture should be one that helps agriculture adjust to these changes.

Ultimately Congress, guided by the not so invisible hand of agricultural interest groups, will decide what policies and programs are adopted to help provide for a better agricultural economy in the future. There are three major pieces of information that suggest where we may end up. The administration has provided at least an outline of the major directions it feels future farm legislation should take. The leadership in the Senate has provided similar guidance. While both these efforts lack specificity, the House has passed legislation that outlines a very specific roadmap for future policies and programs. Clearly what emerges from the Conference Committee as the consensus for a new farm bill will be some compromise between the details of the House Farm Bill, what comes out of Senate deliberations, and suasion by the Administration.

What may be lacking in the current debate is an emphasis on the need to coordinate future policy to address the complex set of factors that will influence the agricultural economy in the future. To be sure, an effective safety net program for producers will be necessary, but it will take much more than that in the long run to maintain the competitiveness of U.S. agriculture.

In summary it appears that what will be needed is a mix of programs that include:

1) **Policy that allows markets to work and facilitates adaptation to change. Understanding that one size does not fit all and coming to grips with all that entails.**
2) **Policy that recognizes the changing structure of market relationships, increased value chains, trace backs, niche markets and alike and the need to safeguard the free flow of information and maintain a competitive environment.**
3) **Policy that promotes increased investment in public sector R&D to insure that the benefits of new technology are available to all producers and address the needs of all sectors of the industry.**

Roger Johnson, North Dakota Agriculture Commissioner

Domestic farm policies and trade policies are intertwined and each has great impacts on the other. While it may be true that trade is freer now than ever before, work still remains to be done to ensure that freer trade is fair trade - that other nations reduce or eliminate trade distorting subsidies as we give up ours. Creating a fair trading environment for our producers is paramount to their success.

The public is becoming increasingly concerned with issues related to food safety. I believe that our food is safe, but I believe we must step up our country's food safety efforts and they must be twofold. First, protecting our ability to produce and distribute an adequate, safe domestic food supply is a matter of national security. Second, we must do all we can to ensure that our food supply - domestic and imported - is safe for our country to consume.

It is time for our country to embrace policies that require agricultural imports to be measured by the same standards as domestic production. While the government must act responsibly to protect the integrity of the food supply, we must also empower consumers with more responsibility when they fill their grocery carts. Consumers have a right to know where their food was produced and processed. Country-of-origin labeling laws have passed many state legislatures across the country, but it is time for the federal government to take a stand and provide consumers with the information they deserve when making purchasing decisions.

The National Association of State Departments of Agriculture (NASDA) believes that the new federal farm policy must contain three core components: 1) counter-cyclical assistance, 2) cost-of-production insurance, and 3) stewardship initiatives. The cornerstone of a new farm bill should be a counter-cyclical assistance payment plan for the producers of major field crops and milk. NASDA supports a new, cost-of-production-based insurance program that would provide protection for up to 90 percent of a producer's documented cost of production, which would provide an additional risk management tool for farmers. NASDA is also proposing a new agricultural stewardship program to be included in the next farm bill.

Farm policy is at a crossroads, and we have many choices before us. Do we continue down the path of primary reliance on trade and a friendly marketplace in keeping with the philosophy of "getting government out of agriculture"? Or, do we recognize the importance of supporting family farmers and ranchers and rural America and craft a new, responsible public policy for agriculture? I choose the latter.

I believe we, as a country, must answer these two questions affirmatively: Do we, as a nation, care if our food is produced in our country? And, if so, do we care whether family farmers and ranchers produce it? And when we do say "yes," we must craft a farm policy that is predictable, dependable, and that provides an adequate safety net to allow well-run family farms and ranchers to survive and prosper.

Sharon Clark, Deputy Commissioner,
Minnesota Department of Agriculture

Upper Midwest farmers grow far more than the 5.5 million people living in Minnesota and North Dakota can consume. Therefore, much of our farm production must be sold to consumers in other states and countries. In fact, according to the U.S. Department of Agriculture, North Dakota is the most export-dependent state in the Union, and Minnesota is the ninth most export-dependent.

At a more basic level, agricultural exports play a major role in determining the price each farmer gets for his or her crops. To prove the point, consider what happened before and after the Asian Economic Crisis hit in 1997.

In 1996, U.S. farmers exported $59.9 billion in farm goods. During this time of strong international trade, Minnesota corn prices rose to $3.95 per bushel and Minnesota soybean prices soared to $8.23 per bushel. But as the Asian financial meltdown caused foreign countries to cut back on imports, U.S. grain stockpiles rose and prices dropped. By 1999, U.S. farm exports had sagged to just $49 billion and Minnesota corn prices were on their way below $1.50 per bushel.

Despite the obvious importance of exports for U.S. farmers, not everyone favors free trade policies. There are a number of reasons for this. One of the common fears about free trade is that it will hurt American businesses because it will open the doors to new floods of imports. But we need to remember that America already has the most open markets in the world. We already are allowing foreign farmers easy access to American markets. It's time foreign countries return the favor.

Another common misconception about free trade and agriculture is that only large agribusinesses see the benefits. There are many examples to the contrary. One such example is Kaehler's Homedale Farms, owned and operated by Ralph and Frank Kaehler of St. Charles, Minnesota. These two brothers, along with 19 other independent cattle breeders, recently exported 150 head of beef breeding stock to the Yunnan Province of China. Ralph says he and his partners fared very well in the deal. In addition to selling stock at a very good price, the Chinese deal helped the Minnesota and North Dakota ranchers by attracting international attention to their high-quality breeding stock.

To help generate more of these success stories, states and the federal government must work together. In Minnesota, one of Governor Jesse Ventura's top priorities is to introduce Minnesota producers and agribusinesses to potential foreign customers. But we can't do it alone.

We need the federal government to help us by opening new markets and leveling the playing field in existing markets. With that in mind, the Bush Administration deserves credit for placing emphasis on developing trade ties between America and other countries. Specifically, the administration should be supported in its pursuits of Trade Promotion Authority (formerly known as "Fast-Track").

We also support attempts to level the playing field between America and our top trading partners during future rounds of World Trade Organization negotiations. While the U.S. has $19 billion in trade-distorting domestic supports according to WTO definitions, Japan has $35 billion and the European Union has $68 billion. These disparities put American farmers at a big disadvantage.