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Farm and Trade Prospects for 2000

My colleague, Keith Collins, has just given us an overview of what is likely in store for the farm economy. As Keith indicated, this will be yet another challenging year for America's family farmers. Thank you, Keith, for that excellent overview.

Today, I plan to review:

1). Steps the Administration has taken to support the farm economy,

2). Steps the Administration' proposes in our budget for agriculture for FY 2001, and

3). Future challenges for America's family farmers.

Again, I do not have to tell you how bad it has been for family farmers over the past few years. Last year U.S. farmers experienced the lowest wheat prices in 8 years, the lowest corn prices in more than a decade, the lowest soybean prices in 27 years, the lowest hog prices since the Great Depression, and the steepest decline in milk prices in history. Even cranberries, known as the Massachusetts mortgage lifter, have plunged from $65.90 a barrel in 1996, to $38.80 a barrel in 1998 -- down some 37 percent.

Supporting the farm economy

When the U.S. Congress passed the Federal Agriculture Improvement and Reform Act (FAIR Act) in 1996, the Administration had serious reservations. It was not clear that the legislation would provide adequate counter-cyclical assistance to producers when markets weakened. These reservations have proven to be on the mark, as the collapse in farm cash receipts revealed serious problems with the farm income safety net.

To address the post-1997 downturn in farm prices, the Administration has used all the tools available to support family agriculture:

1) In 1998, the President exercised his veto powers on Congress' $3.9 billion emergency package. The final package provided some $5.9 billion for rural America – or a quarter of net cash farm income in some states in 1998.

2) Also in 1998, following the collapse of the Asian economies, USDA powered up its export credit and food aid programs to assist those countries in ensuring a stable source of foodstuffs. We are beginning to see some improvement in this region, particularly in Korea, which is expected to buy 5 percent more from the U.S. this year compared to last.

3) Last year, the President asked USDA to expand the use of its food aid authorities, and together, USDA and USAID responded by shipping more than 9 million metric tons of grains, meats, and other products overseas as food aid. This aid benefitted an estimated 40 million people in around 50 countries–the largest tonnage in many years–from Kosovar refugees to Hurricane Mitch victims in Honduras.

4) Again this year, we'll be shipping a large quantity of grains and other products to assist tens of millions of hungry people around the world as well as assisting farmers with discretionary actions by Secretary Glickman to freeze loan rates, re-start the on-farm storage facility program, initiate a bio-energy program and start the enhanced conservation reserve program.

FY 2001 Budget Proposals for American Agriculture

Last month, in his State of the Union Address, the President made clear his commitment to this country's farmers. The President said "We must work together to strengthen the farm safety net, invest in land conservation, and create new markets by expanding our program for bio-based fuels and products."

Let me be clear today, Government farm policy cannot simply keep lurching from one expensive bailout to another. It's expensive, it's inefficient -it's hard on our farmers, its hard on our over-worked USDA staff–and it's hard on the taxpayers. It is time to move beyond annual "damage control," to a stable policy that helps farmers prepare for disasters and price downturns, invest in long-term market development and export promotion programs, and gives them the tools they need to thrive–not just survive.

Current farm policy since Freedom to Farm in 1996 continues to create great uncertainty in the countryside. Frankly, I don't think there is much support for its continuation as it stands. Farm policy in the future could conceivably take a number of directions; let me mention three turns–and perhaps handicap some possible outcomes.

Option 1. Keep Freedom to Farm as it is. Supporters of this approach are hoping for a confluence of factors such as higher commodity prices in 2001, early results from WTO farm negotiations in Geneva, an early reform of EU farm policies, especially on EU distortive export subsidies and substantial and early impact of gains from China joining the WTO.

Option 2. A second approach may be favored by those who will press for higher loan rates for basic program crops, some form of mandatory or discretionary supply control, an expanded CRP, a broader crop insurance program with higher levels of subsidy for buy-up coverage, and expanded conservation initiatives.

A third option may be more likely -- **Option 3 --** the Administration's proposal for a major budget initiative of approximately $11 billion, fully offset and within its baseline, to provide an improved safety net for America's farmers through the remaining years of the current farm bill.

I liken this Administration safety net submission to a solid oak mid-western farm kitchen chair, with four firm legs and a well-built chair back.

Solid oak leg one is the counter-cyclical income support for the basic program crops plus the freezing of loan rates and an extension of the dairy program -- approximately $6 billion over three years.

Solid oak leg two is the reformed and broader risk management/crop insurance package.

Solid oak leg three is a creative conservation package $2.6 billion that expands CRP to 40 million acres, provides for a conservation security reserve investment for all farmers in all regions of the country and provides for farmland protection cost sharing.

Solid oak leg four is an expanded trade initiative that aggressively uses all of our export programs and, in addition requests authority to use any remaining EEP funding for long-term investment in trade promotion as well as for food aid.

Equally important is the **well constructed oak chair back**, which supports the farmer when the farmer leans back on the back legs of the chair. This back includes proposals for bio-fuels, for strong support to processing and marketing cooperatives and for stabilizing the crucial USDA workforce, especially at the county level that has become over stressed the past three years.

This Administration farm policy/budget proposal has a number of benefits: it is flexible; it benefits farmers in all regions; (of vital importance following 1999 eastern droughts and floods and California freezes), it is targeted; it continues to provide planting flexibility; it has conservation initiatives benefitting all farmers in all regions, it is on budget and offset, minimizing impact on the non-social security surplus; it is consistent with our trade commitments; and most importantly, it provides some stability–and a consistent framework -- for a new farm bill in 2002. We need a firmer kitchen chair with a stronger back for America's farmers.

In essence, our budget proposal ***moves U.S. farm policy in a new direction:***

- From ad hoc emergency aid to ***reliable, counter-cyclical assistance*** that makes planning easier for farmers;
- From aid unrelated to need to ***assistance that is targeted*** to small- and medium-size producers during times of greatest need; and
- From a fragmented system to ***a more holistic and national approach*** that covers more commodities,

more producers, and more regions of the country -- and includes additional conservation efforts and expanded crop insurance.

This plan would help prevent costly, ad hoc emergency assistance bills, like the ones we've passed for the past two years. Instead, a plan for assistance would already be in place, ready to kick in when farmers need help. And, unlike the aid Congress provided last fall, the President would target assistance to those farmers who have actually experienced losses.

Second, the plan will promote conservation. Last month, Vice President Gore announced a $1.3 billion conservation initiative that will provide $600 million to farmers to encourage soil and water protection efforts. This plan will allow us to enroll 3.6 million acres in our successful and popular Conservation Reserve Program, and will invest $300 million to strengthen other USDA conservation programs. This plan will not only benefit farmers -- it will protect our natural resources for all Americans.

The third component of the plan will encourage investment in new markets. Our nation's farmers are the most productive in the world. Their future depends on developing new markets for their products. One of the more exciting new markets is for renewable, bio-based fuels and oils.

Under the recently announced bio-fuels proposal, owners of production facilities will receive cash or bushel-for-bushel incentives for using corn or soy in the production of bio-fuels and oils. This program will help reduce our dependency on foreign oil, while helping develop a new, strong, and dependable market for corn and soy.

In addition, Secretary Glickman recently announced that USDA will help small farmers develop new, creative ways to market their products. And USDA will offer technical assistance to help small farmers and ranchers form cooperatives to export crops and livestock to international markets.

While not a cure-all, these proposals will put farmers and ranchers in a better position to succeed than they are in right now.

We want to see the U.S. Congress address these proposals as quickly as possible so we can have a concrete idea of where we stand. And so that farmers can plan wisely, working with their bankers, to know at the beginning of the planting season what level of financial help to expect come harvest time.

Crop Insurance

Even with such improvements in our farm programs, realistically we know that we will continue to need strong risk management programs. That brings me to our efforts to reform our crop insurance programs. Crop insurance is and will continue to be USDA's primary means of helping farmers survive major production losses. In 1999, American farmers purchased some 1.8 million crop insurance policies covering 193 million acres. Liability coverage rose from just $14 billion in 1994 to more than $30 billion in 1999, with indemnity payout in 1999 at $2.3 billion.

Past reform of the crop insurance program was made in the context of an agricultural program that no longer exists. Plunging prices, the effects of multiple years of crop losses, and under-insured farmers have prompted us to develop an aggressive crop insurance reform proposal.

While crop insurance hasn't been the panacea for all our producers' problems, there is a certain irony about the crop insurance program: When people say the system is broken, what they mean is there isn't enough crop insurance coverage.

Today's crop insurance program was designed to work in tandem with our farm programs.

We need a program with sturdy underpinnings , solid steady, reliable legs, that can withstand price and weather volatility.

We need a strengthened crop insurance program, a program that provides premium discounts, a strong risk management education effort, new product development, assists livestock producers, and lifts the NAP area trigger. I understand the Senate Agricultural Committee will go to “markup” in early March, 2000, with the House of Representative’s having already passed its version on “voice vote”in 1999. Some Senators favor a menu-driven approach, while others like the alternative of blanket coverage for all producers. Crop insurance has become a hot political item. There are high expectations that cannot be met by current resources.

But we are confident of good legislation coming from this new Congressional session.

International Trade

It was the market ramifications of the Asian financial crisis that highlighted the gaps in our farm safety net. Our producers clearly depend on the world market. However, as you well know, 1999 was not a good year for U.S. farmers and our agricultural exports didn’t fair well either. Last year, U.S. exports totaled $49 billion, falling $4.6 billion, or 9 percent from the fiscal year 1998 level of $53.6 billion, – and $10.8 billion, or 18 percent, from the historic high of $59.8 billion in fiscal year 1996.

The good news is that this year our exports for fiscal 2000 are expected to hit $49.5 billion--an increase of $500 million over last year. Gains in livestock products and poultry products, horticulture products, and cotton are driving this modest increase.

Prices of livestock products have begun to rise and cotton demand has strengthened. The bad news is that low prices and strong foreign competition are preventing overall recovery in grain and oilseeds.

Probably one of the hottest issues this year on the trade agenda is China's bid to join the WTO.

China WTO Accession

With China's accession to the WTO, U.S. agriculture will have access to an economy projected to grow 7 percent annually, creating significant opportunities for expanding U.S. agricultural, fish, and forestry exports. No other economy in the world is projected to grow this fast. U.S. direct agricultural exports to China in fiscal year 1999 were $1.1 billion, and our exports to China and Hong Kong combined were $2.2 billion.

Its interesting to note that some of what we sell to China we don't use here in the United States. For example, we export some $455 million of chicken products to China and Hong Kong, of which chicken feet are a key component. For chicken paws, this earns the U.S. poultry industry about 10 times per pound what they would get if they sold these chicken feet here in the United States. [2 cents domestic/rendering – compared to – 36 cents per pound in China]

I am confident that China's WTO accession will strengthen the global trading system, slash barriers to U.S. agriculture, give U.S. farmers and agribusinesses stronger protection against unfair trade practices and import surges, and create a more level and consistent playing field in this critical market.

But before U.S. farmers can realize the full market-opening benefits of China's entry into the WTO, Congress must grant China permanent Normal Trade Relations (NTR) status. This is the same arrangement we have given to 132 countries that are members of the WTO. Doing so is necessary to guarantee to U.S. exporters the full market-opening benefits of the agreement we negotiated with China.

This afternoon at the WTO session, the U.S. Ambassador to China will be here to share his thoughts on permanent NTR status for China.

Challenges Beyond 2001

Looking at the challenges for the balance of this year and into next year, let's examine some of the major issues facing production agriculture.

1. Internationally, the challenges look difficult. Getting a quick start and early results from the build-in agenda negotiations at Geneva on agriculture and services does not look easy. **Policies on food safety and biotechnology in the EU** will continue to stymie progress in Geneva, at the Codex Alimentarius and at the WTO. Getting resolution of the beef hormone issue and earlier moves on biotech approvals will be difficult. **Protectionist Japan and Korea** will continue to be hardened negotiating partners for further market access. Once China enters the WTO, monitoring the agreement implementation will be a major task if the expected benefits are to materialize to agriculture exports.

Mexico on the positive side continues to be a strong market even during the run up to its early summer Presidential election. The value of U.S. farm exports to Mexico for fiscal year 2000 are projected at $5.9 billion, up from $5.7 billion in 1999.

2. Role of States in Farm Policy; One Size Doesn't Fit All. An unexpected outcome of disasters in the east in 1999 were major new state financial initiatives to help their stricken farmers. Legislatures of some 8 states voted disaster programs to assist their hard hit farmers. In many of these state programs, their legislatures designed initiatives that supplemented or expanded upon Federal efforts. Will these policy initiatives continue, fostered by available budget surpluses in many of these states? What impact will these initiatives have on federal policy in the future?

3. Structural Changes in America's Food System, The Challenge of Concentration. Continuing productivity increases in production agriculture, concentrated in input suppliers, processing, and increasingly the retail sector, are likely to continue pressure towards a bifurcated farm structure -- on the one hand you have larger family production units with sales over $500,000 and on the other, smaller, often part-time operators, with sales below $250,000, while middle sized production agriculture continues to be squeezed.

The challenge for farm cooperatives will be intense. Let me illustrate: In the main grain processing sectors, four companies control 55 to 80 percent of the 1st stage business, in food service, the top six firms control 40 percent and in the retail sector, the 10 top grocery chains increased their size 25 percent in just one year -- 1997-1998. It seems the food system is concentrating rapidly. Thus the question and the challenge for the family farmer–where are you going to get access to this food system? A stronger cooperative system is one answer and the Administration's budget proposes $130 million for stronger cooperatives.

4. Diversity in Farm Operators. With some exceptions, academic work in the Land Grant system has done little research on the location, production, marketing, and credit needs of the increased diversity of our farm operators. . The 1997 U.S. Census data indicates that some 165,000 American farm operators are women -- already 17 percent of farm operators in New England. In addition, there are 75,000 Native American, Asian-American, Hispanic-American or African-American farmers. In Fresno County, California, a county with the largest farm output of any county in America, fully a third, 2000 of the county's 6000 farmers are Asian and Hispanic. Over 50 percent of USDA's farm loans in Fresno County are awarded to Asian American and Hispanic farmers and Hispanic farmers are increasingly evident in Central Washington and South Western Michigan. USDA's major efforts in civil rights under Secretary Glickman's leadership are furthering this trend, as farmers find USDA offices and programs accessible.

5. Hunger, Agricultural Development and Research in Developing Countries. In the past several years, hunger alleviation around the world has focused policy makers interest. Longer term structural improvements in developing countries agriculture however, will be challenging -- especially now that emerging markets account for close to half of U.S. farm trade -- valued at over $25 billion. The future roles of many international institutions, such as the FAO, Intern-American Institute for Cooperation on Agriculture (IICA) and other UN organizations, the Consultative Group on International Agricultural Research (CGIAR) system, the World Bank, regional development banks, and others will need to be reexamined. Are these organizations organized today at the start of the 21st Century to assist emerging and developing countries meet the challenge of modernizing their farm and food systems?

6. E-Commerce – Another structural change facing American agriculture is the rapidly developing Internet sites that offer producers and agribusinesses the opportunity to buy and sell online. In fact, this sector is developing so rapidly that in the last few weeks alone, 10 startup ag.coms raised over

$250 million in initial public offerings (IPO's). Add in the $100 million that Rabobank is putting up for investing in ag.coms, and the private capital that is flowing into a myriad of sites, and you see how agricultural is developing into the 4th largest e-commerce industry in the next four years, according to some estimates. All this adds up to increased transparency in agricultural trade, and provides producers more information about markets. More information equates into more power in the marketplace.

USDA, not surprisingly, is at the forefront of this move to e-commerce. The Farm Service Agency developed the first electronic document of title, electronic warehouse receipts for cotton. Through legislation we tend to propose, we will expand these documents not only to other commodities, but also different types of documents. We call this "e-documents for e-commerce." And, we also are purchasing commodities online for our food aid programs. Our domestic program purchases, including those for the National School Lunch Program, come online this spring. Further, just last month, the Commodity Credit Corporation began to sell its cotton inventory through an Internet auction.

Conclusion

In closing, I am reminded of an event at which Secretary Glickman was talking about helping farmers through tough times – helping them to survive, which is a common theme these days. All of a sudden a farmer in the front row stood up and shouted, “Hey, I don’t want to survive! I want to thrive!” We are doing all we can to help American family farmers reach that goal. As we work to pull our farm economy up from these tough times, I encourage your input and look forward to an ongoing dialogue with you.

Thank you.

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