

## Policy



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## Recommendations of the Commission on 21<sup>st</sup> Century Production Agriculture

*Debate on the future direction of U.S. farm policy is underway. This is the first in a series of articles on current farm policy topics. It describes the recommendations of a commission established under the 1996 Farm Act. In upcoming issues, AO will address other policy proposals and will examine how current farm policy is affecting the agricultural sector.*

The Commission on 21st Century Production Agriculture, whose final report was released on January 31, 2001, was charged in the 1996 Farm Act with developing recommendations for legislation to “achieve the appropriate future relationship of the Federal government with production agriculture.” In its report, *Directions for Future Farm Policy: The Role of Government in Support of Production Agriculture*, the Commission outlined four goals for U.S. agricultural policy, based on testimony gathered at a series of listening sessions:

- production of an abundant supply of high-quality agricultural products at reasonable prices;

- maintenance of a prosperous and productive economic climate for the farmer producers;
- maintenance of the family farm organization as a dominant part of the production system;
- realization of a high quality of life for all individuals living in rural areas.

The Commission concluded that the government should pursue policies and programs promoting nine key outcomes:

- ensure a competitive agricultural economy through monitoring of concentration, enforcement of antitrust laws and related regulatory authority, ensuring transparency of market behavior, including contracting;
- develop policies and programs that enhance the competitiveness of U.S. agricultural products, reduce trade barriers, open markets, and enhance the ability of producers to maximize value-added opportunities;
- base all policy on sound science and insist that foreign competitors do likewise;

- promote and enhance food safety and a clean environment;
- promote and enhance animal and plant health and safety;
- provide support for agricultural research and education;
- enhance the development and use of risk management tools;
- develop and fund programs that meet the special needs of small and limited-resource farmers;
- provide an effective and adequate income safety net for farmers, with minimal market distortion.

In pursuit of these key concepts, the Commission recommended specific legislative approaches in the areas of assuring an income safety net for producers, enhancing risk management options, supporting conservation and environmentally beneficial practices, improving agricultural trade opportunities, revising individual commodity policies, and assisting small and limited-resource farms.

### *Assuring an Income Safety Net For Producers*

The Commission’s proposals for an income safety net endorsed the idea of countercyclical payments to producers at times of low prices, in place of ad hoc emergency spending. At the same time, the Commission recommended the continuation of planting flexibility as introduced by the 1996 Farm Act. The recommendations specified a two-part system of payments: 1) continuation of the current Agricultural Market Transition Act (AMTA) payments at baseline allocations of about \$4 billion per year, and 2) development of a Supplemental Income Support (SIS) program.

Although the Commission left the details of the SIS program to congressional debate, it made several suggestions for program design. Payments should be triggered when, due to either production or price disasters, farmers’ national or regional aggregate gross income from program crops (wheat, corn, soybeans, sorghum, rice, upland cotton, oats, and barley) fails to meet a set percentage of an historical average based on a fixed-base reference period. As with current AMTA

payments, eligibility would be based on historical production levels of program crops during the reference period. Because the program would be “decoupled” from current prices and yields for specific commodities, the Commission believes it could be defined as a “green box” payment (i.e., minimal effects on trade) under current World Trade Organization (WTO) commitments, exempting it from WTO disciplines limiting domestic support.

The Commission acknowledged potential difficulties with such a plan and a number of possible alternative approaches that Congress might consider in determining income averages, payment triggers, eligibility, and payment levels. For example, using a national-level aggregate income could lead to cases in which the national trigger level for SIS payments is not reached, even though particular localities or crops produce average incomes below the trigger. Use of an aggregate income measure for a region or crop area could address this problem. Another difficulty may be choosing the appropriate reference period on which to base the trigger; the implications of various fixed-base periods require analysis, and a moving average may also need to be considered. Other difficulties include determining the appropriate percentage of average income to be compensated, whether the aggregate measure of income should be based on gross crop income or net cash income, and whether the mix of program crops should be extended to include other commodities.

In addition to maintaining the base AMTA payments and developing a SIS program, the Commission recommended continuing the marketing assistance loan program, with both loan deficiency payments and marketing loan gains. While suggesting that any increases in loan rates could lead to market distortions, the Commission did recommend ending limits on payments and rebalancing the loan rates to better reflect historical market prices.

### ***Enhancing Risk Management Options***

The Commission noted that a wide array of risk management tools were available to U.S. producers, including planting flexibility, diversification, production and

marketing contracts, hedging and futures options contracts, labor outsourcing and input leasing, vertical integration, altering production and cultural practices, and off-farm income. The recommendations, however, focused on only two categories of risk management: insurance policies and savings account programs.

In the area of crop and revenue insurance, the Commission called for a study of the possibility of making these programs actuarially sound and based on products provided by private companies, with the Federal government no longer underwriting insurance company risk, but rather providing vouchers for producers that offset their premium costs. In making this recommendation, the Commission expressed concerns about the effect of current crop insurance programs on farmland rental rates, the level of loss acceptance by insurers in areas with high loss ratios, the inducement by crop insurance to continue production on marginal lands, the effect of crop insurance provisions on planting decisions, and the fiscal accountability of the insurance industry.

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**The recommendations specified a two-part system of payments to producers: continuation of the current Agricultural Market Transition payments and a Supplemental Income Support program.**

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Among alternative savings account proposals currently under discussion, the Commission favored the Farm and Ranch Risk Management (FARRM) account. Producers who owe Federal tax on a positive net farm income would be permitted to deposit 20 percent of that net farm income into an interest-bearing savings account. Interest on the account would be taxed annually, but the principal would be taxed only on withdrawal. Although previous FARRM account proposals have limited to 5 years the time deposits may remain in the account, the Commission recommended no time limit be included so that the accounts could function both as cash reserves and as retirement savings.

### ***Supporting Conservation & Conservation Practices***

The Commission focused its attention on two conservation programs—the Conservation Reserve Program (CRP) and several conservation cost-share programs. Citing significant reductions in average erosion rates since 1986 under the CRP, the Commission recommended its continuation. To enhance benefits to water quality, it further recommended dedicating any increases in program acreage to partial field enrollments along riparian areas, such as buffer strips, filter strips, wetlands, and grass waterways.

Among conservation cost-share programs, the Commission recommended particularly the continuation of the Environmental Quality Incentives Program (EQIP), which provides incentive payments and cost sharing under a 5- to 10-year contract for conservation practices outlined in a site-specific plan. Producers may enroll cropland, rangeland, pasture, and forestland, but 50 percent of the program is dedicated to conservation practices on livestock operations. Payments are limited to \$10,000 per person per year and \$50,000 over the length of the contract. To enhance the value of EQIP, the Commission recommended it be funded at the \$200 million annually authorized in the 1996 Farm Act, with additional funds dedicated to administration of the program by USDA's Natural Resources Conservation Service (NRCS). Program levels have been limited to \$174 million in fiscal years 1999, 2000, and 2001.

The Commission further recommended that research be conducted on ways to provide incentive payments to farmers for the positive contributions of agricultural practices to air and water quality—practices which might include alternative fuels, manure management, and carbon sequestration.

### ***Improving Agricultural Trade Opportunities***

Addressing trade, the Commission endorsed the U.S. position presented to the WTO in June 2000, particularly the commitment to a comprehensive negotiation of all economic sectors, including comprehensive negotiation of issues with-

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in the agricultural sector. The agricultural sector issues include tariffs and tariff-rate quotas; import and export state trading enterprises; new technologies; export subsidies, taxes, and credit programs; domestic support to agriculture; and treatment of developing countries. The Commission further recommended granting trade negotiating authority to the President, noting that, except for the recent lapse in the 1990s, such an authority has been in place since 1934.

The Commission recognized the impact of government policy on the success of small family farms, recommending that programs be designed specifically for small and limited-resource farms.

Finally, the Commission expressed its belief that negotiations over environmental and labor standards are better handled through the United Nations Environment Program and the International Labor Organization than through the WTO.

### Revising Individual Commodity Policies

The Commission considered four commodities—*dairy*, *peanuts*, *sugar*, and *tobacco*—unique enough to warrant review and recommendations regarding their individual programs.

*Dairy* policy, according to the Commission, must address the issues of Federal marketing orders, dairy compacts, Federal price support, and international market opportunities and challenges. Milk marketing orders require simplification and greater transparency, even after implementation of reforms required by the 1996 Farm Act. Regional dairy compacts have attracted increasing interest as a means of raising minimum price levels. The Federal price support program has been extended annually, despite its scheduled elimination in 1999. And dairy import controls and export enhancements continue to face scrutiny in trade negotiations.

The Commission recommended examination of several dairy policy options that might help curb expansion of milk production and reduce dependence on regional support strategies in the face of new technologies facilitating national and international milk marketing. Among these options are 1) alternative price support mechanisms, including the possibility of a marketing loan program for dairy products; 2) some form of direct payment for dairy producers; 3) supply controls; 4) forward contracting options; 5) extension of dairy compacts beyond the current regional models; and 6) revenue and gross margin insurance options.

In the view of the Commission, *peanut* producers face pressures from expanding trade commitments and from falling domestic demand. Current peanut policy keeps the U.S. domestic peanut price higher than the world price through a system of marketing quotas and price supports. Critics have voiced concern about production and consumption inefficiencies created by this policy. The Commission recommended examination of several policy options that might continue support for the domestic peanut industry while stimulating stronger demand and competition: 1) phased reduction of the peanut quota system, including compensating current quota holders and allowing sale or lease of quotas across state lines; 2) subsidies to manufacturers for purchase of domestic peanuts, similar to the Cotton Step 2 program; 3) a peanut marketing loan; 4) a direct payment program for peanut quota holders; and 5) incentives to increase competition in the industry.

The Commission recommended reconsideration of *sugar* policy in view of rising stocks and slowing demand growth. The program supports producers through a system of nonrecourse loans that act as a guarantee of minimum price levels for beet and cane sugar. Sugar is imported at a minimum annual level through a low-duty tariff-rate quota allocated among importing countries, with additional

access granted to Mexican sugar through the North American Free Trade Agreement (NAFTA). Increasing domestic production, the result of acreage expansion and yield improvements, and increasing access for imports, the result of recent trade commitments, has led to downward pressure on prices and forfeitures under the nonrecourse loan program.

To avoid the likelihood of continued stress from increasing supplies on producers and the sugar program, the Commission suggested evaluating a series of alternative policies, individually or in combination: 1) a sugar marketing loan program; 2) domestic marketing and/or production controls; and 3) a direct payment program for producers. The Commission stressed that these alternatives should be considered within the context of international sugar trade commitments.

The Commission called for rethinking *tobacco* policy because of rapidly changing domestic conditions and increasing foreign competition. The current policy is based on a system of marketing quotas that allot a portion of annually determined tobacco demand to growers owning or renting eligible land. The program also provides nonrecourse loans that support prices for tobacco grown under quota at an annually determined loan rate. Increased international competition from higher imports under negotiated tariff-rate quotas and reduced export demand are dampening demand for domestic tobacco leaf. At the same time, domestic cigarette consumption is being affected by the settlement between the tobacco industry and state's attorneys general over health care costs for tobacco-related illnesses. Tobacco-use control programs funded through the settlement are expected to reduce demand, and tobacco producing states are eligible for funding from the cigarette industry to compensate tobacco farmers and quota holders for anticipated losses from reduced demand.

- To review the full report of the **Commission on 21<sup>st</sup> Century Production Agriculture**
  - To learn more about the Commission
- [www.agcommission.org](http://www.agcommission.org)

Given the complicated future of tobacco production and tobacco programs, and the attention being paid to tobacco issues by a number of other entities, the Commission decided only to suggest possible program changes for consideration by other groups charged with examining these issues, rather than making a formal recommendation. The suggestions include 1) increasing transferability of quotas, particularly across county or state borders; 2) a phase-out of the marketing quota program through a buyout; and 3) a marketing loan program for tobacco that could increase export competitiveness by allowing domestic prices to fall.

### ***Assisting Small & Limited-Resource Farms***

The Commission acknowledged the value of small family farms as agricultural producers and as significant components of rural communities. It further recognized the impact of government policy on the success of small family farms, recommending programs be designed specifically for small and limited-resource farms. To that end, the Commission recommended that the USDA Small Farms Advisory Committee, successor to the National Commission on Small Farms, receive formal authorization as part of USDA, with permanent staff and funding.

Although deferring to the Small Farms Advisory Committee as the lead group in designing programs for small and limited-resource farmers, the Commission recommended four areas for consideration: 1) assistance for beginning farmers, 2) conservation-based safety net programs, 3) risk management programs, and 4) programs to enhance small-farm competitive-

ness. The Commission suggested that a program of matching grants might allow beginning farmers to become established without taking on burdensome debt. Programs could also be devised to encourage established farmers to assist beginning farmers. Conservation safety net programs could include enhanced technical assistance and timely reimbursement to small and limited-resource farms to establish conservation practices, perhaps with higher cost-share levels for installation of required conservation and environmental practices. Small farms might also be targeted for participation in the conservation and wetland reserve programs or for special programs to preserve green space and viewsheds.

Risk management programs for small farms might include targeting pilot insurance programs to small and limited-resource producers for crops previously not covered and providing specialized educational programs addressing use of sustainable agricultural practices to manage risk. The Commission suggested fully funding already authorized programs intended to enhance small and limited-resource farm competitiveness, such as the Outreach and Technical Assistance Program for Socially Disadvantaged and Minority Farmers (2501) program and farm ownership and operating loan programs. It also suggested increasing appropriations for the Sustainable Agriculture Research and Education (SARE) program and the Rural Technology and Cooperative Development Center Grant program, and providing financial assistance to develop small-producer cooperatives.

As a way of identifying small and limited-resource farms in need of special assistance, the Commission also supported establishment of a voluntary minority small farms registry.

### ***Minority Views Diverge***

Not all commissioners shared the majority views presented in the Commission's report. Minority views in the areas of Farm Income Support Policy, Agricultural Trade Policy, and Antitrust and Industry Concentration appear within the main report. These dissents represent essentially two viewpoints that diverged from the majority report in opposite directions. One side cautioned against moving away from a fundamentally market-oriented policy and recommended maintaining programs primarily to provide catastrophic risk protection, to help farmers make the transition to more profitable sizes or enterprises, and to focus on environmental stewardship. The other side called for production-based safety net programs with benefits targeted to family-scale operations, voluntary supply management, expanded land retirement for conservation, trade reforms that consider the needs of domestic agricultural production and consumers, and revitalization of antitrust policies and enforcement.

Further details of these minority views will be presented next month in an article on the diversity of current farm policy proposals, the second in this series on current farm policy topics. **AO**

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