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Farm Income Safety Net Proposal

-Approved by the Rural Development Financial Security Committee-
adopted by the
National Association of State Departments of Agriculture
Chicago, Illinois - May 7, 2001

Federal farm policy should provide an adequate safety net that ensures good producers are not put out of business due to forces beyond their control such as weather, disease, domestic policy, foreign policy, etc. A financially healthy and profitable agricultural sector is essential to ensure that American producers can provide a safe food supply in an environmentally conscious manner. With respect to the financial viability of our nation's farms, the 2002 Farm Bill should address the following four goals; foster financial stability, maintain producer flexibility, contain a safety net that provides meaningful assistance, and encourage environmental stewardship.

NASDA's Farm Income Safety Net Proposal consists of the following components:

- Cost of Production Insurance
  - ✓Includes all crops (program and specialty) feedstuffs, milk, and programs for livestock
- Counter-cyclical payments/ LDPs
  - ✓Fixed payments would be based on updated five year histories.
  - ✓Countercyclical payments would decrease as prices increase.
  - ✓Countercyclical payments would increase as prices decreases.
- Specialty Crops
  - ✓Eligible for Cost of Production Insurance
  - ✓Stewardship payments (including Block Grants)
- Other Block Grants
  - ✓Farm Viability Projects
  - ✓Food Safety

This proposal is designed to comply with our current and future World Trade Organization (WTO) obligations. Current U.S. "Amber Box" spending is capped at $19.1 billion. Should this limitation decline, counter-cyclical payments could be transferred into fixed payments and stewardship payments, in keeping with WTO caps and compliance.

Cost of Production Insurance

An integral component of this proposed Farm Bill is to provide the agricultural producer with an adequate safety net. This safety net would be made available to all producers in a fair and equitable manner. An effective insurance program, with accountability to the American taxpayer, should be the backbone of agricultural producer survivability in the United States.

NASDA proposes to establish a comprehensive Cost of Production (COP) insurance program, which gives the producer a safety net of a maximum of 10 percent loss in any one year of documented production costs. Beginning producers would receive a higher premium discount.

Cost of Production insurance coverage would be available for all crops (program and specialty), feedstuffs, milk, poultry, aquaculture and livestock.

Cost of Production insurance would serve as an additional crop insurance option. Producers would also have the choice of purchasing coverage through any of the other policies available. Cost of Production insurance would provide coverage of up to 90 percent of a producer's documented cost of production.

If conditions beyond the control of the producer cause his/her commodity yields to be substandard and/ or market conditions cause prices to drop, the producer would receive indemnities to enhance his/ her ability to remain in agriculture.

Although Cost of Production insurance was included in the Agricultural Risk Protection Act of 2000, which establishes a $6 billion baseline for crop insurance programs, NASDA recommends an additional $1 billion annually in spending on Cost of Production insurance to expedite Research and Development for the program, and for premium subsidies for specialty crops and underserved* commodities. This program has been designed to be an additional insurance tool, not as a replacement for other crop insurance products.

Counter-Cyclical Payments

NASDA supports increases in federal baseline spending for agriculture over the next ten years to provide an adequate safety net for agriculture. The safety net is designed to fall within our WTO obligations in the amber box and to maximize allowable amber box spending, while maintaining an adequate reserve for emergency spending. These spending levels will result in a counter-cyclical program which will best protect producers' income when prices are low and which would decline as prices increase. This program will also demonstrate to trading partners that the United States is serious about using the tools that have been negotiated for American agriculture.

NASDA proposes that counter-cyclical payments be made to agricultural producers of corn, wheat, sorghum, barley, oats, rice, cotton, soybeans, and milk when market prices are low.

We have designed the counter-cyclical payments to provide support to producers at a 90 percent of 90 percent cost of production level:

Commodity	Average Total Cost of Production (1998-1999)	90% Average Total Cost of Production	90% of 90% Average Total Cost of Production
Barley	$3.52	$3.17	$2.85
Corn	$2.66	$2.39	$2.15
Cotton	$0.90	$0.81	$0.73
Oats	$2.36	$2.12	$1.91
Rice	$11.74	$10.57	$9.51
Sorghum	$3.61	$3.25	$2.92
Soybeans	$5.99	$5.39	$4.85
Wheat	$4.22	$3.80	$3.42

Source: USDA-ERS

The counter-cyclical nature of the payments is designed to provide the producer with larger payments during times of low prices and to provide smaller producer payments from government expenditures when market prices are high. By making the payments counter-cyclical, this program is able to help ensure stable farm income, thus enhancing agricultural survivability.

The methodology of the counter-cyclical payments provides that producers should receive 90 percent of 90 percent of the 1998 and 1999 average cost of production from the sum of market receipts and counter-cyclical payments. This concept encourages the development of producer marketing skills by the retention of the commodity marketing loan concept.

NASDA believes that a farm policy should be designed to provide a safety net equal to 90 percent of the total cost of production (90 percent variable, 10 percent fixed).
However, to assure that producers are encouraged and free to respond to market signals, NASDA proposes that 10 percent of the 90 percent level of total cost of production be provided by a fixed payment.

Using the Congressional Budget Office (CBO) baseline projections of Commodity Credit Corporation (CCC) outlays and crop prices, and with the conviction that we should not exceed the WTO amber box limitations, the total amount of projected payments are split between fixed and counter-cyclical payments. The split between fixed and counter-cyclical payments is designed to take advantage of the tools negotiated for our producers but not to exceed our WTO obligations.

The fixed payment would be paid much like the AMTA payment is made now, and would be guaranteed to the producer of the crop based on an updated five-year history (1996-2000) of base production amount and crop acres.

The counter-cyclical payment would be calculated annually as an LDP payment or similar methodology.

Dairy

NASDA Policy states "*that states should have the flexibility to create multi-state marketing agreements in order to enhance farm prices within their borders. Such authority would not be intended to permit states to erect trade barriers.*"

NASDA supports a federal dairy policy which would:

- Extend the dairy price support purchase program at the current support price of $9.90 per hundredweight

- Maintain the current CCC purchase prices for nonfat dry milk and butter at their current rates;

- Extend the Dairy Export Incentive Program (DEIP);

- Establish a counter-cyclical payment program through federal and state milk marketing orders to ensure that revenues received by dairy producers from sales of Class III and Class IV milk are no less than 90 percent of nationwide average cost of production or $11.08 per cwt, whichever is less. Payment is not to exceed $1 billion per year. Payment is excluded on those farms benefitting from an over order Class I pricing system other than the federal order price system.

Specialty Crops, Livestock, Poultry, Milk, and Aquaculture

NASDA proposes that specialty crops, aquaculture, poultry, livestock and milk be eligible for coverage under the Cost of Production crop insurance program.

Specialty crops are defined to include fruits, vegetables, tree crops, nursery, vine, citrus, seed crops, and other crops as determined by the U.S. Secretary of Agriculture.

NASDA also recommends the reauthorization of the restriction on planting of fruits and vegetables on land receiving program crop payment benefits.

Other Block Grants

Some states have begun farm viability programs, which provide financial assistance to farm operations to undertake projects that will improve the efficiency, competitiveness, and market research of these operations. In some instances, program funds are used to fund agricultural economic development specialists on the local level.

In some states, the assistance is tied to easement limitations that restrict development on the land. In other states, funding is contingent upon the applicant having completed a farmland viability plan that details how the applicant is seeking to achieve greater profitability. NASDA recommends that $150 million be allocated annually for states departments of agriculture to administer farm viability block grants.

The vast majority of food safety work takes place at the state and local level. In order to create a seamless system, the federal government should actively support the extensive infrastructure already in place to address food safety issues. Rather than a significant expansion of federal programs, financial support should be provided via block grants for state departments of agriculture and local food safety programs, with clearly defined goals and expectations to ensure broad coverage and no duplication.

New Stewardship Initiative

NASDA is also developing a New Stewardship Initiative as part of a comprehensive farm policy proposal. The concept of this initiative is to compensate producers for implementing various on-farm conservation practices that enhance environmental goals. The program would be designed as a “block grant” program, with state departments of agriculture administering the program as the lead agency. USDA would be given the authority to enter into “cooperative agreements” with individual states. NASDA recommends that all commodities, specialty crops, livestock, poultry and aquaculture* be included for participation in this initiative and have access to the funds made available through this block grant proposal as designated by the individual states.

NASDA believes this program would give state and local governments more flexibility, tools, and resources to implement agriculture conservation priorities, while providing maximum benefits to producers. This initiative would build on existing planning systems and infrastructure, and complement– not duplicate– current programs.

The New Stewardship Initiative will:

- Recognize producers activities that enhance protection of land, water, air and wildlife and at the same time, provide public environmental benefits
- Provide contract opportunities and payments to producers on an annual basis
- Bases payments on the costs and benefits of conservation practices
- Provide maximum flexibility for states to set priorities
- Coordinate and consolidate total resource management plans
- Protect individual producer privacy and data confidentiality
- Provide program benefits to all producers, including specialty crops and livestock (which includes beef cattle, dairy cattle, poultry, swine, sheep, goats, aquaculture, and bees.)

NASDA recommends an annual spending level of $8 billion for the New Stewardship Initiative.

* DEFINITIONS:

Secretary– The term ‘Secretary’ means the Secretary of the United States Department of Agriculture.

Specialty Crops– The term ‘Specialty Crops’ means all fruit, vegetable, nursery, vine, seed crops, citrus, tree crops, and other crops as determined by the Secretary.

Livestock– The term ‘Livestock’ means dairy cattle, beef cattle, equine, cervidae, swine, sheep, goats, and other animals as determined by the Secretary.

Poultry– The term ‘Poultry’ means chicken, duck, game hens, laying hens, broilers, turkeys, emus, ostriches, and other such avian species as determined by the Secretary.

Aquaculture-the term ‘Aquaculture means the production of aquatic plants and animals in fresh water, brackish water and salt water for human and animal food, for recreational fishing, for resource enhancement, for the aquarium or garden trade and other animals as determined by the Secretary.

State Department of Agriculture– The term ‘State Department of Agriculture’ means the department or agency responsible for agriculture in the state and territories within the United States.

Producer– The term ‘Producer’ means a person who is engaged in the production of agricultural products, including; specialty crops, livestock, poultry, or aquaculture and other commodities as defined by the Secretary.

Underserved Commodities– The term ‘Underserved Commodities’ means that whenever FCIC determines that a commodity, including a specialty crop, is not being adequately served by existing crop insurance programs. (Note: definition still under review)