

**NASDA's 21<sup>st</sup> CENTURY FARM POLICY INITIATIVE**  
***Working Partnerships To Serve Agriculture: The Tools to Succeed***

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# **NASDA's 21<sup>st</sup> CENTURY FARM POLICY INITIATIVE**

## ***Working Partnerships To Serve Agriculture: The Tools to Succeed***

### **PURPOSE**

The commissioners, secretaries, and directors of the state departments of agriculture have spent the past two years considering the changing dynamics in food and fiber production around the world. From that analysis comes the National Association of State Departments of Agriculture's (NASDA) comprehensive set of strategic policy initiatives designed to enhance U.S. agricultural competitiveness and ensure the survivability and enhance the profitability of American producers.

Our purpose is to contribute to a wide-ranging and constructive debate on the first farm bill of the new century. As the chief agricultural officers in their states, NASDA members understand the importance of the entire food and agricultural sector — not only to their states but to the national economy as well.

### **INTRODUCTION**

Agriculture is an important force in the economic, social, and political fabric of America. Policy decisions for and about agriculture, from the Homestead Act that helped settle the West, to the development of our Land Grant college system, were essential building blocks of our society. Now, as America faces the information age and the technology revolution of the 21<sup>st</sup> century, policy makers must not forget the agricultural foundation that supports our place in the world. Moreover, since the horrific September 11<sup>th</sup> terrorist attacks on America there will be an unprecedented level focus on the integrity and safety of our farm to table food supply chain. This will be a challenge for producers and policy makers alike.

Farming and ranching are the foundations of our \$1 trillion food and fiber business and nearly \$60 billion in annual exports. Agriculture is a major contributor in our country's trade balance. This vast industry is not only essential to the economic health of rural America, it generates almost 16 percent of the total economic activity in the nation, as well as providing almost 18 percent of the country's jobs. This economic mainstay is rooted in the land resources of the country. More than 900 million acres of agricultural land is in the care of farmers and ranchers and their families, accounting for 60 percent of land use in the lower 48 states. Not only is a sound agricultural sector critical to the health and prosperity of our nation, it is essential to the environmental health of the nation as well.

However, the business of producing food and fiber is undergoing unprecedented change. Economic, environmental, consumer, and technological forces beyond the control of individual farmers and ranchers drive this change. And as we have learned, so to does the necessary defense of our nation. Federal and state policy makers need to be aware of these forces to make prudent policy decisions that will help position American agriculture to benefit from the opportunities this change will bring about. Never before have the stakes been so high for American agriculture. To ensure the future viability of our nation's production agriculture industry, it is clear that state and federal policy makers must work together. That is the spirit of this document.

NASDA's Farm Policy Initiative offers certain priorities for federal policy. It proposes important new roles for states, especially in the area of program and service delivery. These concepts are put forth not to "rock the boat" for the sake of parochial issues of "turf," but rather as an attempt to best serve the needs of our agricultural producers in an increasingly competitive worldwide marketplace.

## GUIDING PRINCIPLES

NASDA's policy process was guided by six simple principles designed to be the guidelines for a comprehensive, coordinated, agricultural policy. We urge federal policy makers to adopt similar guidelines.

**Profitability and Viability:** A financially healthy and profitable agricultural sector is essential to the production of a safe, fresh, and affordable food supply. Moreover, economically viable farming and ranching enterprises will enable producers to increase their efforts to maintain a healthy environment, protect our natural resources, and build stronger rural communities.

**Level Playing Field:** A financially healthy and competitive agricultural economy can only result from a fair marketplace — domestic and global — where efficient, productive farmers and ranchers have economic marketing and bidding power commensurate to their assets and production capabilities.

**Non-Trade Distorting:** American producers are among the most efficient in the world. Open international — and domestic — markets would not only benefit U.S. producers, but are a foundation upon which U.S. agriculture relies. Thus, NASDA's recommended policies are intended to be market-based and non-trade distorting, which means that certain safeguards may be pursued, such as access to information and reasonable but certain anti-trust enforcement.

**Flexibility in Regulation:** One size does *not* fit all. Government policies and programs should be flexible, and to the maximum extent possible, based on voluntary participation through incentive-based approaches. While regulations should be appropriately based on national goals, they should also be controlled and implemented at the state level.

**Sound Science:** The foundation of the agricultural sector has long been the development and adoption of science-based practices derived from reliable data and information. As business people, agricultural producers have looked to science for the best information possible to make decisions. Sound, peer-reviewed science policies and methodologies for assessing risk must be the standard for government regulations and international trading rules.

**Maximum Delivery Through States:** New and expanded programs should emphasize the role of states in terms of delivery. Particular emphasis should be placed on partnerships and pilot projects.

## A BROADER POLICY HORIZON FOR AGRICULTURE

The focus of farm policy has varied throughout history. The Agricultural Adjustment Act of 1933 established the first major price support and acreage reduction program and set parity as a goal for farm prices. Much of the policy infrastructure of today remains a legacy of that seminal 1933 act.

As American agriculture enters the 21<sup>st</sup> century, however, the traditional approach will not be enough to ensure adequate opportunities for success. The extent of global competition for U.S. producers has expanded into capital, tax burdens, labor supplies,

environmental and regulatory constraints, food safety concerns, land costs, and the relative degree of access to foreign markets. In short, agricultural policy is much broader than what has been thought of as its historical jurisdiction. Congress recognized this reality during the 1996 farm bill debate. There was much discussion of the “other side of the ledger sheet,” i.e., the types of policies beyond commodity price supports designed to protect farmers’ assets, such as tax reform and regulatory relief, and to provide new market opportunities such as trade policy reform and new uses for commodities. In one sense, all of these factors can be viewed merely as different “forms” of risk to be managed.

## **MANAGING RISK**

NASDA’s plan is built on the principle that the most effective agricultural policy is one that allows today’s producers to manage all the risks they face in order to maximize their opportunities for profitability. U.S. farm policy should not guarantee that every farmer make a profit; it should, however, provide an adequate “safety net” and a range of tools to manage risk, in all its forms, to ensure that good producers are not put out of business due to arbitrary forces beyond their control.

Indeed, risk goes beyond commodity price fluctuations. Broader economic changes, such as energy and fertilizer costs, are perhaps some of the biggest economic challenges facing producers today. The range of environmental and food safety challenges faced by farmers and ranchers today are complex, involve a higher level of scientific scrutiny and uncertainty, and are influenced by a diverse mix of stakeholders and interests. Moreover, in today’s global market producers face food security risks from animal health issues and plant diseases, both here and abroad. The goal of government policy at both the federal and state level must be to ensure that opportunity accompanies each new risk that faces American agriculture. Those risks are economic and environmental; and they are local and global. They come from both the marketplace and governmental policies. This broader, more encompassing concept of risk, should be what we mean when we use the terms “risk” and “risk management.” And this broader meaning of risk management must, in turn, be the foundation of a comprehensive farm policy that is designed to both protect producers’ assets and provide new market opportunities.

## **CORE AREAS FOR POLICY**

NASDA has identified five core areas of a broad, risk management/opportunity-based agricultural policy. Together they encompass the elements that a comprehensive agriculture policy for the 21<sup>st</sup> century must include.

**Farm and Food Security:** Federal farm policy should provide an adequate safety net which ensures good producers are not put out of business due to forces beyond their control. Providing this safety net will assure consumers of a safe, affordable supply of food.

**Stewardship:** Protection of our natural resources and the safety of our food supply is a necessary element to any comprehensive farm and food policy.

**Market Integrity, Opportunity, and Expansion:** Whether in global trade or a local farmers’ market, the integrity of the marketplace in terms of transparency, price discovery, and competitiveness, is paramount. Farm policy should also focus on what tools are necessary to find new market opportunities, through trade, new uses, or even new technologies from e-commerce to biotechnology.

**Investments in Critical Needs:** These critical needs encompass the infrastructure — both physical and economic — which runs the range from locks and dams, to research, to price discovery. These are the cornerstones to a viable agriculture sector.

**Agriculture Flexibility and Partnership:** To target and streamline the delivery of services and administration of selected programs to producers, states may assume the responsibility for implementing certain federal programs. With agriculture flexibility (Ag-Flex), states are encouraged to create innovative solutions to local priorities, with performance based on benchmarks. The potential is for a system that benefits federal agencies by better using the inherent local strengths and accountability of the states.

## **ROLE OF THE STATES**

NASDA's members, perhaps not surprisingly, view the role of the states as a critical element of any federal agricultural policy. Enough so, that the role of the states is worthy of special comment in this introduction.

Competing priorities and increasing demand for resources, combined with consumers' demands and the need for a level playing field for producers, mean that the old way of doing things has to be re-examined. Nowhere is this more true than in the area of regulatory implementation and program and service delivery. States can play a key role in making the delivery of services to producers and the protection of consumers more efficient and effective.

States already play an indispensable role in the regulation of pesticides, for example. It is largely up to the states to regulate pesticide licenses and certifications, to protect groundwater resources, endangered species and agricultural workers. States are relied upon to conduct inspections, and provide technical assistance. This system provides a valuable model for other policy areas – from new priorities such as food safety, to more traditional areas such as the delivery of program services. Indeed, state departments of agriculture are close to the producers and can provide a much needed front-line common sense practicality to implementing federal programs and applying federal regulations.

To be successful, however, such a program must be based on certain principles of partnership. First, it must be clear that federal-state partnerships do not become new unfunded federal mandates on the states. Because states can enhance the efficiency of certain federal programs, it does not follow that states can — nor should they — shoulder the fiscal responsibility of federal initiatives. Second, the partnership must be based on recognition that each party has certain capabilities, authorities, and responsibilities that are mutually beneficial. Third, partnerships must be built to accomplish certain goals and priorities. Using these principles as guideposts, NASDA members believe there is an expanded role for effective federal-state partnerships in agricultural policy.

# FARM AND FOOD SECURITY

## INTRODUCTION

The agricultural economy is in a tenuous economic position. Were it not for near record federal government assistance over the past three years, much of U.S. agriculture would be in financial straits not seen since the Dust Bowl era. According to the Commission on 21<sup>st</sup> Century Production Agriculture, “midway through 2000” saw many crop prices “at or near historic lows.” Coupled with a strong dollar that has crippled exports — and benefited our export competitors — U.S. farmers and ranchers have been squeezed in an economic vise with no market relief for nearly three years in a row.

The only relief has come from *ad hoc* emergency market loss payments from the federal government. These payments have helped sustain our nation’s food and fiber production through this economic drought. According to the USDA, direct government payments accounted for three-fourths of net cash income for major field crops in 1999 and two-thirds in 2000. But these payments were *ad hoc* distributions; while they provided the necessary relief for an ailing agricultural economy they were more bandage than cure.

### The goal:

**To ensure that sound, well-managed farm operations are not arbitrarily put out of business by extraneous forces beyond their control.**

The 1996 farm bill made sweeping changes to U.S. farm policy; many were good and as such achieved their desired impact. However, broad economic trends — from the Asian economic collapse to the dot-com stock market run-up and subsequent implosion, to the energy price spike of 2000 — have all had effects on farm finances and commodity prices that were certainly outside the vision of the policy makers who crafted the 1996 farm bill. It is the task of policy makers in crafting the farm bill, therefore, to devise a federal farm policy that provides an adequate “safety net” for producers.

The goal: *To ensure that sound, well-managed farm operations are not arbitrarily put out of business by extraneous forces beyond their control.*

With respect to the financial viability of our nation’s farms and ranches, NASDA’s recommendations are based on the following four principles: fostering financial stability, maintaining planting flexibility, providing a safety net that provides meaningful assistance to all producers, and encouraging good environmental stewardship.

**Financial Stability:** Producers are in need of a predictable support mechanism that will allow them to receive a reasonable income, even when prices are inadequate to do so. This financial stability is important to consumers and taxpayers, as well as to producers, and is best achieved through a program that provides assistance which is counter cyclical to the market.

**Planting Flexibility:** One of the features of the 1996 farm bill which is of greatest benefit to producers is the planting flexibility. The farm bill should retain that provision.

**Loss Protection:** So many factors are out of the control of even the best farm managers. Thus, the farm bill should provide a way for producers of all commodities to limit their losses to no more than 10 percent of their cost of production through a cost of production insurance program.

**Environmental Stewardship:** The farm bill must consider the financial burdens of environmental compliance and therefore provide incentives and cost sharing opportunities to responsible producers who employ environmentally sound on-farm management practices.

## **PROVIDING A SAFETY NET FOR PRODUCERS**

NASDA's farm income safety net proposal fosters financial viability and maintains planting flexibility through a combination of cost of production-based commodity insurance and counter cyclical price assistance, both of which comply with the United States' commitments under the World Trade Organization. Furthermore, in keeping with the principles outlined above, NASDA's proposal is also designed to be truly a "safety net," under which producers would still be exposed to economic risk, but not ruin. The plan is based on goal of supporting prices at 90 percent of the cost of production. It provides a counter cyclical payment that would be triggered by a price drop below 90 percent of the national average cost of production (1998-1999), augmented with an insurance program that allows producers to re-coup up to 90 percent of their individual cost of production.

By targeting a national average cost of production, the counter cyclical program is truly responsive to the state of the national farm economy. The cost of production insurance allows farmers to address their individual circumstances. And, at the 90 percent level, the marginal costs to the federal government of underwriting the insurance policies are capped in a fiscally responsible manner. Further, fraud and abuse are prevented; farmers would have to lose money, out-of-pocket, to receive a payment; thus the system can't be "gamed." Finally, and perhaps most importantly, the 90 percent level for both the counter cyclical and the cost of production insurance programs wouldn't encourage overproduction of covered commodities.

**Cost of Production Insurance** — NASDA believes that an effective commodity insurance program, with accountability to the American taxpayer, should be the backbone of commodity support policy. Cost of production-based insurance would provide protection for up to 90% of a producer's documented costs of production. It would add to the existing array of crop insurance products an additional risk management tool that farmers currently do not have. Cost of production insurance coverage provides the participating producer with a true "safety net" allowing him to rest assured that he will have no more than a 10 percent out-of-pocket loss in any given year. Farmers would be individually rated in terms of premium levels; beginning farmers without a production history would receive a greater premium discount.

One of the benefits of cost of production-based insurance is its relatively straightforward structure. A participating farmer would be required to document all production expenses. Then, he would determine his gross income from sales of his crop and any government assistance payments he may have received. If that total income exceeded 90% of his documented cost of production, the producer would receive no indemnity payment. If, due to market conditions, weather, disease, or other events beyond the producer's control, his total gross income is less than 90% of his cost of production, he would receive an indemnity payment for the difference between his actual receipts and 90% of his cost of production.

Although cost of production insurance was included in the Agricultural Risk Protection Act of 2000, NASDA recommends that an additional \$1 billion be provided annually to expedite the development of cost of production policies. Initial commodities to be covered by the cost of production policy should include fruits and vegetables, nursery, vineyard, seed and tree crops, livestock and milk. We

also recommend that additional premium subsidies be provided to growers of these crops, recognizing the fact that no counter cyclical assistance program exists for them though they are experiencing the same market difficulties as growers of major field crops.

**Beginning Farmers** — Beginning farmers often have difficulty in securing adequate financing. Start-up farm operations are typically highly leveraged with minimal cash-flow margins. These financial conditions increase risk and loan positions for lenders. The loss risk may also be a deterrent for some to enter the business.

In many cases, beginning farmers do not own farmland. Those who do own farmland often have the real estate financed by one lender and look to another lender for annual operating financing. Operating losses pose the greatest risk for highly leveraged operations since equity in secondary collateral sources is not usually available for the refinancing of operating repayment shortfalls. Cost of production insurance would greatly reduce the risk of operating losses to both beginning farmers and their lenders. Lenders would be much more comfortable and willing to provide adequate operating loans to beginning farmers if a true Cost of production insurance plan were in place to help ensure the repayment ability of the loans.

**Counter Cyclical Assistance** — NASDA supports efforts to increase baseline agricultural spending over the next ten years in order to provide a reliable and effective safety net. However, we recognize that the U.S. must balance such support with its obligation under the WTO's "amber box" spending classification not to exceed \$19 billion. To best accomplish this balance, NASDA proposes a counter cyclical (CC) payment plan for major field crops and milk.

Counter cyclical payments would replace the current system of fixed payments to producers of major field crops that have been supplemented with annual, off-budget *ad hoc* economic disaster payments. Predictable payments would be made at times when market prices are inadequate and would be triggered if prices were below 90% of the average of the 1998 and 1999 economic cost of production. NASDA's members believe government assistance should be counter cyclical in nature to protect producer's incomes when prices are low, yet minimize market distortion and save taxpayers' money when prices are stronger. Counter cyclical payments allow government support to be adjusted quickly, up or down, in response to market conditions. NASDA's counter cyclical program is designed to meet all U.S. commitments under the so-called "amber box" of the WTO. NASDA members remain convinced that this program is a necessary step not only for the economic stability of domestic producers, but to demonstrate to our trading partners that the U.S. is serious about using all the tools available under WTO to, at a minimum, maintain U.S. market share.

#### **The proposed Counter Cyclical Payment plan would...**

- **Provide stability by supporting U.S. producers at a sustainable farm revenue;**
- **Be available to producers of corn, wheat, sorghum, barley, oats, rice, cotton, soybeans, and milk;**
- **Consist of both a fixed, and a variable payment;**
- **Replace AMTA payments;**
- **Fulfill all WTO Amber Box commitments.**

Counter cyclical payments would be made on a 90/90 basis; they would cover 90 percent of a national average economic cost of production (as defined by USDA/ERS) and be comprised of two components: variable and fixed. Up to 90 percent of the total payment would be variable and counter cyclical to the market; the remaining 10 percent of the payment would be fixed and based on an updated five year history (from 1996 to 2000) of base crop acres and yield. The variable payment would be paid on actual production of each producer. It would be calculated as the difference between actual average market prices and 90 percent of 90 percent (81%), of the total average cost of production. NASDA also recommends that the restriction on planting fruits and vegetables on acreage eligible for counter cyclical assistance be maintained. (*For series of examples of how NASDA's cost of production and counter cyclical assistance proposals work, please see Appendix A.*)

**Provisions for Specialty Crops** — An additional \$1 billion should be provided annually to accelerate development of cost of production insurance policies for fruits and vegetables, nursery, vineyard, seed, citrus, tree crops, livestock, and milk.

- Additional premium subsidies (above the 50% level) would be provided since no counter cyclical assistance program currently exists for these crops.
- The state block grant program for support of specialty crops created by the Emergency Agricultural Economic Assistance Act (P.L. 107-25) should be permanently authorized.
- Producers of specialty crops would be eligible to participate in the Agricultural Stewardship Program (conservation block grant) based on state-determined priorities.

**Dairy Policy** — The 1996 FAIR Act maintained the federal milk marketing orders by reorganizing and consolidating them into the current twelve orders. While the federal orders are designed to respond to changes in milk production patterns and marketing and pricing systems, they have not been able to eliminate the frequent and significant drops in milk prices paid to dairy farmers. NASDA has attempted to gain consensus on a national dairy policy. In keeping with the development of a program that would provide counter cyclical price support for dairy farmers, NASDA supports federal dairy policy that would:

- 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 cost of production, or \$11.08 per cwt, whichever is less. Total payments are not to exceed \$1 billion per year. Moreover, in addition to direct payments, NASDA supports the States' right to create multi-state marketing agreements in order to enhance milk prices within their regions, though such authority would not be intended to erect trade barriers. States participating in regional compacts would not be eligible for direct dairy payments;
- Extend the dairy price support purchase program at the current price of \$9.90 per cwt;
- Maintain the current CCC purchase prices for nonfat dry milk and butter at their current rates;
- Extend the Dairy Export Incentive Program (DEIP).

<b>Budget Score – Safety Net</b>						
<b>90% Variable, 10% Fixed</b>						
	2002-07 Average Annual Cost				2002-07 Average Annual Cost	
	FAIR Act Extended	WTO Amber box	2001 Estimate	WTO Amber box	NASDA	WTO Amber box
LDP's & Counter cyclical	\$2,488	\$2,488	\$3,491	\$3,491	\$8,178	\$8,178
AMTA - regular	\$4,008	\$0	\$4,130	\$0	\$0	\$0
AMTA - emergency	\$0	\$0	\$4,130	\$4,130	\$0	\$0
Fixed	\$0	\$0	\$0	\$0	\$6,385	\$0
Tobacco/Honey	\$52	\$0	\$27	\$0	\$52	\$0
Dairy	\$128	\$4,500	\$149	\$4,500	\$1,000*	\$4,500
Peanuts	\$40	\$300	\$40	\$300	\$40	\$300
Sugar	\$105	\$1,400	\$90	\$1,400	\$105	\$1,400
Other Costs	\$794	\$0	\$2,523	\$0	\$794	\$0
Crop loss assistance	\$0	\$0	\$3,200	\$3,200	\$0	\$0
<b>Safety Net Total</b>	<b>\$7,614</b>	<b>\$8,688</b>	<b>\$17,780</b>	<b>\$17,021</b>	<b>\$16,554*</b>	<b>\$14,378</b>

\* Includes counter cyclical payments

**Disaster Assistance**— Farmers do not have access to the same types of federal assistance as other businesses following a natural disaster. Emergency loans are provided to help cover production and physical losses in counties declared as disaster areas by the President or the Secretary of Agriculture. Unfortunately, the emergency loan program has not been an effective tool for most farmers. Generally, in order to be eligible for an emergency loan, producers must have suffered a qualifying physical loss, or a production loss of at least 30 percent. Producers are only eligible for an emergency loan if they cannot obtain commercial credit. The loan limit is 80 percent of actual loss with a maximum loan amount of \$500,000.

NASDA urges a revised FSA emergency loan program, similar to assistance provided to small businesses, that provides measurable assistance to agricultural producers in disaster situations. We recommend that appropriate loan amount caps be provided in the new program and that eligibility for the program be expanded to producers who may not currently be eligible for Farm Service Agency (FSA) emergency loans. Further, NASDA recommends that the entire amount of actual loss demonstrated by the farmer be covered up to the limit of repayment capability, and that the program's review process for both producer qualifications and agency screening/loan determinations be simplified.

When a federal natural disaster has been declared, we recommend that the Federal Emergency Management Agency (FEMA) be given the authority to make grants immediately available to agricultural producers in order for them to make emergency repairs. In addition, farmers should be eligible for low interest loans from the Small Business Administration and other appropriate agencies for assistance following the disaster.

## **TAX POLICY**

Farmers and ranchers will benefit from the reduction in tax rates provided by the Economic Growth and Tax Relief Reconciliation Act passed in 2001. Indeed, lower tax burdens for agricultural producers will mean more spending in their rural communities, and more investment in their businesses which, in turn, leads to benefits for consumers. But from agriculture's perspective, where relatively low margins are forced to support capital intensive fixed assets and investments like land, buildings, and environmental management measures, more needs to be done than reducing marginal income tax rates.

## **CAPITAL AND CREDIT NEEDS**

Both the Farm Credit System and commercial banks compete aggressively to provide capital to low risk borrowers. This practice, however, leaves behind many borrowers who are still adjusting to the depressed commodity markets, or are beginning farmers. During a time of low profit margins, reduced support programs and increased consolidation in the agricultural processing industries, financial tools that assist the producer — especially the beginning producer — may be developed from a combination of federal, state, and private resources.

There are two areas on which NASDA is most focused with regard to capital and credit needs: capitalizing first-time farmers, and retaining entry-level or small, existing farmers. "First-time farmers," as the name implies, are entering into full time agricultural production for the first time. Today's financial projections indicate such a producer will need to generate gross annual revenues in excess of \$100,000 from production alone or production combined with off-farm income. Given the typical financial position of a beginning farmer, three classes of capital needs can be identified. The first is capital for land ownership or control of lease arrangements, equipment and breeding livestock, and an operating line of credit for inputs and other costs of production. Second, marketing and risk management costs, retained ownership of grains and livestock. And finally, cost of living expenses. These are the target areas for innovative approaches to capital.

Moreover, retention programs for small existing and entry level farmers must encompass a wide variety and range of financial and management needs. Such programs should center on the producers that generate between \$100,000 and \$500,000 annual gross income, and be based on some of the same foundations that the first time farmer programs are — namely providing adequate financial resources at affordable costs with cross-collateralization capabilities. In the longer run, programs to help these producers acquire marketing skills and avail themselves to value-added opportunities will greatly benefit farmer retention efforts.

USDA's Rural Development Agency should consider guaranteed loans for producers who have organized as Limited Liability Companies or other business entities for the purpose of value driven marketing programs. The Rural Development agency should not be limited, however, to "brick and mortar" assistance programs with market enhancement programs. NASDA urges the IRS tax code be changed to allow livestock feeding programs (including dairy and egg producers) to be considered as grain processing (biological processing) which would make some Rural Development programs available for value-added marketing alternatives.

NASDA also believes the FSA beginning farmer down payment program should be improved by extending the current amortization program by 15 years.

**Capital Gains and Estate Tax** — Capital gains tax exemptions and estate tax exemptions are vital ingredients to a successful, productive future for all Americans, particularly those families involved in agriculture. Trends are showing that fewer and fewer enterprises are being passed from one generation to another. Tax relief serves to lessen financial constraints on family-owned and family-operated farms, ranches and agribusiness enterprises.

Taxes paid on capital gains prove to be disincentives for agricultural producers. Agricultural operations require large amounts of capital to operate efficiently and that efficiency is taxed away through high taxes on capital gains. NASDA recommends that Congress enact a \$500,000 capital gains tax exemption on farm assets, similar to the \$500,000 homeowner capital gains exclusion. This exemption should also be indexed for inflation.

Further, NASDA supports a \$500,000 capital gains tax exemption on gains realized from the sale of agricultural land preservation or conservation easements or development rights and the creation of a law to exempt the sale of development or conservation easements and development rights from triggering the recapture provision of the special-use valuation regulation.

Estate taxes have contributed to the gradual extinction of the "family business." As enterprises are passed on, beneficiaries are forced to sell large portions of land, machinery or other assets to simply pay the taxes. The results are that many operations are forced to liquidate some assets or are forced out of business altogether. NASDA supports the elimination of estate taxes for family farms.

**Agricultural Savings Accounts/IRA's** — NASDA recommends the creation of an expanded agricultural savings account (ASA) program for American farmers and ranchers. Under the program, a farmer or rancher can defer agriculture production revenue to an ASA after a minimum of \$10,000 taxable income from agriculture production, or 5% of gross agriculture revenue, whichever is higher. ASA account dollars would be taxable only in the year of withdrawal, have no time limitation, and able to be converted to a retirement account when a producer retires. Non-taxable withdrawals would be allowed for education and medical purposes only for self, immediate family, dependents and employees and all other provisions as provided for in IRA's. NASDA supports increasing the contribution limit to \$10,000 on IRA's for farmers and ranchers.

**Self-Employment Taxes** — NASDA supports the elimination of the self-employment tax on income from rent of farmland, including CRP rents. Further, NASDA recommends that farmers who have gross income of \$2,400 or less be able to report \$1,600 as net earnings from farm self-employment.

**Health Insurance Premiums** — American farmers and ranchers incur significant costs in providing medical insurance coverage for themselves, their families, and employees. NASDA recommends that Congress provide a 100% income tax medical deduction for farmers and ranchers, including all health insurance premiums and medical surgery for self, immediate family, dependents and employees. Prescriptions, Medicare and medical supplies should also be tax deductible.

**Depreciable Assets** — NASDA supports increasing annual capital expensing of depreciable assets up to \$25,000 or 20% of a farm's gross revenue, whichever is higher. This provision should be indexed for inflation.

**Marriage Tax Penalty** — The marriage tax penalty impacts farmers and ranchers who pay a higher rate when a spouse is working off the farm. NASDA supports eliminating the marriage tax penalty.

**Social Security Taxes** — NASDA urges Congress to provide self-employed persons the ability to claim one-half of their social security taxes as a business expense.

**Commodity Donations** — Language should be provided in the Internal Revenue Code for farmers and ranchers to receive 100% tax credit in commodities donated to 501 (3)(c) organizations at cost of production. This provision should also allow for tax credit on the cost of transporting a commodity to a 501 (3)(c) organization.

**Incentive Tax Credits** — NASDA supports tax incentives which help to strengthen the agricultural industry. NASDA recommends that Congress consider providing the following incentive tax credits:

1. 20% tax credit for environmental/conservation improvements expenditures.
2. 20% tax credit for agricultural research directed by agricultural producer committees to include new crops, agriculturally-derived alternative energy sources, and new value-added products.
3. 20% tax credit for young farmer and rancher program contributions.
4. 20% tax credit for education and promotion of U.S. grown products.

**Aggie Bonds** — NASDA recommends removing “Aggie Bonds” from the individual state limits on bond volumes. This would greatly increase the opportunities for the use of Aggie Bonds for entry level and less established producers for purchases such as land, breeding, livestock, machinery, and equipment. Removing the volume cap would also help value added and agribusiness programs to acquire affordable credit. Recently Aggie Bonds have been authorized for use with environmental programs for expansion and compliance. Existing regulations do not allow Farm Service Agency (FSA) to guarantee Aggie Bonds, though the addition of Aggie Bonds to the IRS list of possible exceptions through FSA is appropriate. Indeed, there are exceptions to the code already on the books, such as the Federal Housing Administration, Veterans Administration, and Student Loan Administration

The current \$250,000 maximum bond base is insufficient, however, even in the event of other necessary reforms. Land or other purchases are often in excess of the \$250,000 and lenders currently charge conventional interest rates on the balance. A larger maximum on the Aggie Bond base will provide an additional tool in agriculture financing. Changing the value limit to \$250,000 to match the percentage change is a needed tool for “entry level” producers. NASDA believes the FSA loan program should be maintained with adequate funding.

**Farm Business Succession** — The economic future of our nation’s agriculture depends on the ability of a new generation to enter farming. The barriers faced by the next generation are significant, and merit immediate attention by policy makers. These barriers include:

- Insufficient farm entry strategies
- Insufficient farm exit strategies
- Inability to acquire the initial capital investment
- Difficulty of identifying viable farm entry opportunities
- Obtaining appropriate financial, managerial, and production training and assistance
- Obtaining appropriate community support.

The National Farm Transition Network has assisted in the development of programs that link retirement and farm exit approaches with farm entry strategies. Nineteen programs representing twenty-four states have established Farm Link programs to “link” beginning and retiring farmers. Many of these programs provide educational seminars, publications, and technical assistance to assist farmers in discovering ways to successfully transition viable farm business from one generation to the next. Programs that help create the opportunity for young people to begin a career in agriculture, particularly by addressing farm access, must be part of the rural and agriculture development agenda of government as well as the private sector, including farm organizations.

Indeed, new business succession and farmland tenure models must be developed. These models must facilitate the entry of the next generation and the exit of the existing farmer in a equitable manner. These models must be regionally appropriate and respond to the unique needs of the full range of beginning farmers and farm owners.

State departments of agriculture are uniquely positioned to respond to the need to promote farm and ranch business succession planning. State departments of agriculture should sponsor and/or support existing and new farm linking programs and sponsor state legislative efforts to:

- Provide income tax incentives to existing farmers who are assisting a beginning farmer
- Provide for property tax incentives to existing farmers who are assisting a beginning farmer

- Establish a beginning farmer loan program in the states where they do not currently exist
- Establish a guarantee for lease payments.

**Farm Viability Programs** — Recognizing that keeping farms profitable and viable is the most effective means of maintaining working farmland in productive agriculture, several states have developed farm viability programs. These programs provide financial assistance to farms to undertake projects that will improve the efficiency, competitiveness, and market reach of their operations. For example, a farm looking to market a new product might use financial assistance from such a program in developing a feasibility study. Program funds could also be used to fund agricultural economic development specialists at 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.

Since the profitability and survival of farms is crucial to the well-being of the surrounding communities, farm viability programs can be an important part of overall rural economic development strategies, particularly in densely populated areas where pressures to convert agricultural land to development are increasing. The federal government has expressed its intent to foster appropriate development in rural areas of the United States, most notably through the USDA Rural Development program.

This program, however, has become known mostly for funding water and wastewater infrastructure projects in rural areas. While these are important projects, providing cost-share dollars to states that have established farmland viability programs would allow USDA Rural Development to more closely fulfill its mission of facilitating economic development in rural areas. NASDA recommends that \$150 million be allocated annually for state departments of agriculture to administer farm viability block grants.

## **LABOR SUPPLY**

Many factors that have resulted in labor shortages in agriculture. Potential changes in immigration policy, since September 11<sup>th</sup> may also bring unintended impacts on the availability of farm labor. Employment in agriculture is seen as a stepping stone for workers seeking employment in higher-paying jobs in the service sector. Field work on farms is viewed as undesirable for many seeking full time employment.

The United States has never really developed or implemented an explicit labor policy for agriculture. Most federal efforts have been “stop-gap” measures that have provided little or no direction to states. This is a burden on the ability of producers to obtain skilled agricultural labor. All states will likely continue to experience agricultural labor shortages and this trend is expected to worsen as more and more workers are finding more profitable employment outside the agricultural area. Therefore, it is paramount that long-term policies be implemented to ensure the agriculture community is able to maintain a qualified workforce.

Currently, the U.S. Department of Labor (DOL) administers the H-2A Program for Temporary Alien Agricultural Workers. This program was created in the 1986 Immigration Reform and Control Act and allows employers to bring agricultural workers into the country on a temporary, non-immigrant basis. The purpose of the program is to ensure agricultural employers have an adequate labor supply while protecting the jobs, wages and working conditions of domestic workers.

Unfortunately, the H-2A program has not worked as it was envisioned. It is inflexible and difficult. It contains too many requirements and regulations and demands too much paperwork from employers. It forces employers to understand and deal with at least four different state and federal agencies. For example, an initial application is filed at the U.S. Department of Labor. Once it is approved

by DOL it goes to the Immigration and Naturalization Service (INS) for visa approval. Once approved by the INS, the visas go to a Port of Entry. Additionally to this cumbersome government process, the employers must rely on an out-of-country “middleman,” who can identify workers and who is supposed to ensure those workers get to the farm or ranch. These middlemen, however, are not always reliable.

There is no doubt that the agricultural guest worker program is in need of change. Congress should act swiftly to, not only reform H-2A, but find a viable alternative to this controversial program. NASDA supports a labor policy that will ultimately provide our agricultural community with a reliable, skilled workforce—yet avoid any increase in illegal immigration or abuse of farm laborers. NASDA recommends that an alternative state or regional pilot program be implemented that creates a system of registries of temporary agricultural workers, based somewhat on the current program that Canada and Mexico jointly administer.

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### **The Canadian Seasonal Agricultural Worker Program**

The Canadian Seasonal Agricultural Worker Program began in 1966, with the Caribbean and was extended to Mexico in 1974. This program is based on a government-to-government memorandum of understanding (MOU). Similar to H-2A, domestic workers must first receive offers for employment. Canadian agricultural employers initiate the process of hosting foreign workers under the MOU when no domestic workers can be found. These job orders must specify their labor needs, wages paid, etc. with Human Resources and Development Canada at least eight weeks in advance of when the workers are actually needed. Job orders must offer foreign workers a minimum of 240 hours of work in a period of six weeks, housing and meals or cooking facilities and the minimum prevailing wage or the same wage paid to domestic workers doing the same job, whichever is higher. There is an official registry of workers that the government of Mexico maintains for this program and the private “middleman” that the H-2A program requires is eliminated. The program has been highly successful for both countries; seasonal workers return home and are able to save money and invest back in Mexico, and Canadian producers can rely on skilled workers they know and trust. Many employers asked for workers by name.

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Under this program, procedures for temporary admission and extension of stay of non-immigrant agricultural workers would be streamlined and a new category of foreign temporary farm workers — the H-2C — would be created. H-2C visa holders working in the United States would be limited to a maximum stay of 10 months. Past H-2C visa holders seeking another visa must establish that they departed the United States and returned home for at least 2 months after the original H-2C visa expired. H-2C visa identification and employment eligibility documents should use the advanced technology that the INS relies on to prevent counterfeiting and tampering.

### **ENERGY COSTS**

Historically changes in cost of production have been due primarily to changes in the cost of land. More recently farmers have been especially hard hit by sharp increases in fuel prices because of their extensive use of oil and gas products in agricultural production. Agriculture already has a low return on investment and equity when compared to many sectors of the American economy, so volatile swings in energy and other input costs can drastically alter farmers’ net revenue. USDA’s projection for farmers’ expenditures for fuels and oils, electricity, fertilizer, and pesticides in 2001 is \$30.0 billion, up \$700 million from 2000. That equals a decrease in net cash income of about 10 percent.

Increased energy prices, especially fuel prices, immediately impact farmers' costs of production. Even though farmers are more energy efficient than ever before, spikes in energy costs hit particularly hard their already tight profit margins. But when considering the impact of higher energy prices on agriculture, it is also important to remember that the amount of energy used in agriculture is significant beyond the traditional gas and diesel for vehicle and machinery use. They use heating oil, natural gas, propane, kerosene and/or electricity to heat or regulate temperature in their hog or chicken facilities and dry their crops. Even pesticide costs are directly related to petroleum. As a general rule, it takes the equivalent of one gallon of diesel fuel to make one pound of active ingredient of pesticides.

Farmers are limited in what they can do to mitigate the effects of higher energy prices. When and where possible, producers are limited to employing different production strategies, such as reducing field operations by switching from conventional tillage practices to reduced till, adjusting fertilizer application rates, changing the timing of fertilizer applications and using animal manure and green fertilizer. Unfortunately, however, for the foreseeable future the costs of energy will remain relatively high and it is in the nation's best interest to deal with how to adjust to the increased prices.

NASDA recommends that government support for alternative fuel sources to fossil fuels continue, focusing on the use of ethanol, biodiesel and biomass production. In the interim period, there should be a renewable fuels content standard in energy legislation, and preferential tax treatment for ethanol, such as in the small ethanol producer tax credit. Congress should also provide funds to continue the USDA Commodity Credit Corporation Bioenergy Program. Renewable fuels such as ethanol and biodiesel are the cornerstones in assisting American agriculture in terms of the use of its product and energy requirements.

### **SMALL & DISADVANTAGED FARMERS**

A 1997 USDA report on "Civil Rights and Small Farmers" concluded that small and disadvantaged farmers were being neglected by USDA assistance services, and instead, these services were directed to larger farm operations. Even without government assistance, however, a number of these small family and disadvantaged farms have managed to survive the numerous adversities facing agriculture. Indicators show that their future survival, however, will no longer be possible without some form of government intervention. With assistance, these farms could modernize operations, increase efficiency, and become better prepared for unexpected disasters.

The National Commission on Small Farms, in 1998, sent to USDA a report on small farms in the United States. The report was the product of considerable discussion and deliberation based upon extensive testimony, both oral and written, from across the country. NASDA recognizes the significance of the report and adds that American agriculture depends on its diversity of crops and cultures to thrive and grow. NASDA supports policies and programs that recognize American agriculture excels because of its cultural diversity that encourage the sustainability of small farms. NASDA further recommends increased awareness of the needs of limited resource producers.

# STEWARDSHIP

## INTRODUCTION

America's farmers and ranchers are stewards of much of our nation's natural resources. They also are stewards of public trust in the safety of our food supply. More than 900 million acres of agricultural land in the United States is in the care of farmers, ranchers and their families. Our country, and much of the world, depends on these "working" agricultural lands for a reliable supply of safe and affordable food and fiber. But America is also looking to these lands, and those who manage them, for something else — a contribution to the enhancement of our environment, and preservation of wildlife habitat.

States often tackle environmental, food safety, and pesticide management issues before they reach national attention. In part, this has occurred because states have established close working relationships with farmers, ranchers, and a diverse mix of local stakeholders. From the state perspective, NASDA sees the need for new policy approaches — in some cases minor adjustments, and other cases major overhauls — in the areas of conservation, food safety, and the responsible use of pesticides. All of our proposals are built on a single concept: federal-state cooperation in support of the producers' role of steward.

## WORKING PARTNERSHIPS BETWEEN AGRICULTURE AND THE ENVIRONMENT

NASDA wholeheartedly seeks a partnership between agriculture and the environment, because just as America is dependent on our nation's agricultural production, U.S. agriculture is dependent upon clean air and water and fertile land for its viability. Indeed, forging such a partnership for the 21<sup>st</sup> century is off to a good start. Significant gains have been made in addressing traditional agricultural environmental concerns over the past decade. Soil erosion is down, wetlands protection has increased, and wildlife habitat has been enhanced. We credit existing conservation programs for a good deal of this progress, and thus we recommend their continuation with increased funding, augmented by some modifications outlined later in this section.

A new focus on partnership is needed, however. Although the agricultural community has been making progress in several conservation areas, the scope and range of environmental challenges faced by farmers and ranchers has expanded, while environmental regulations have increased and changed along with the public perceptions, priorities, and science that underlie them. NASDA strongly supports and encourages the use of existing USDA-managed conservation programs. At the same time, we recognize that successfully meeting new environmental demands is a "make or break" challenge for producers. Our challenge today is to maintain an economically viable and healthy working agricultural landscape producing the food and fiber on which the country depends, while improving the environmental benefits that our country seeks.

Although much progress has been made, improvements in the status and condition of land, water, plants and wildlife have, unfortunately, slowed. At the same time, however, the public is increasingly looking to the agricultural sector to address a growing agenda of environmental issues — including nonpoint source pollution and water quality, air quality, urban sprawl, and invasive species. Other emerging or ongoing challenges include climate change, carbon emissions, hypoxia, pfiesteria, pesticide use, and biodiversity.

Yet, federal resources for conservation have declined. One of the main constraints for conservation programs is the lack of funding and technical assistance. In the past year, total outlays for agriculture exceeded \$32 billion, of which \$1.8 billion went for conservation. By comparison, in 1941, the federal government spent \$6.2 billion for conservation (in 1999 dollars).

**Tools to Get the Job Done** — While the basic conservation effort needs continued and increased emphasis, all of these factors point to the need for rethinking, retooling and restructuring agricultural environmental and conservation policy. New approaches and a better “toolbox” of programs are needed to meet these changing problems, objectives and goals. For the past two decades, USDA agricultural environmental policy has traditionally relied on only two tools — economic incentives for long-term land retirement and compliance mechanisms for soil conservation on land remaining in production and to discourage conversion of wetlands to crop production. USDA provides cost-sharing and technical assistance, but the fact is these programs are significantly underfunded.

The farm bill gives us the unique opportunity to design a new generation of programs and tools for agricultural conservation and environmental management. This is an investment that will advance the environmental goals that the public seeks — while improving the economic health and environmental performance of farms and ranches.

**Agricultural Stewardship Program: A New Vision for Agricultural Stewardship** — NASDA has closely reviewed the major conservation programs of the 1996 Farm Bill. From our own personal experiences as commissioners, secretaries, and directors of the state departments of agriculture, and from working directly with farmers and ranchers, we know how these programs are working and what improvements are needed. As previously stated, we strongly support existing USDA-managed conservation programs and believe they are working well. Looking beyond these successful programs, however, we also examined new opportunities that could harness a new generation of environmental stewardship.

NASDA calls for a bold, new initiative to address agricultural conservation and natural resource and environmental priorities through state partnerships. This new Agricultural Stewardship Program would be a “block grant” type initiative that would give state and local governments greater flexibility, innovative tools, and resources to implement agricultural conservation priorities. While our initiative builds on existing delivery systems and infrastructure, it does not duplicate existing programs. The intent of the proposal is to fill in the gaps, which will only increase in the future due to changing public expectations and regulatory requirements. This new approach will provide a better “toolbox” with new and appropriate tools to meet these needs.

States are often forced to address environmental problems before they reach national and federal attention. The range of environmental challenges to be faced by farmers and ranchers in the future will be more complex even than today’s challenges. A higher level of scientific scrutiny will be applied, and solutions will require the ability to work with a diverse mix of stakeholders and interests throughout a community, watershed, or other geographic area. Current conservation programs have limited capacity and funding to address these situations and needs.

**NASDA’s proposal asks the federal government to recognize two key facts:**

- **A one-size-fits-all approach toward helping agriculture meet the environmental challenges of the next decade will leave some regions of the country and producers of some crops or livestock out in the cold.**
- **Local leadership in designing and implementing realistic programs, focused on what local stakeholders agree are the most pressing local agricultural environmental problems, is required.**

## HOW THE AGRICULTURAL STEWARDSHIP PROGRAM WORKS...

**Participation:** A state department of agriculture could choose to operate the block grant program, or collaborate with another local, state, tribe, or federal agency in delegating this responsibility. For example, a state could cooperate with USDA's Natural Resources Conservation Service (NRCS) to operate the program, or the State Conservation Agency.

**Coordination:** A state department of agriculture could establish a planning committee, or other advisory body (or expand the authority of any existing body) to design, develop and implement the Agricultural Stewardship Block Grant Program.

**Delivery System:** The state departments of agriculture, or designated agency, would administer the ASP block grants through existing delivery systems, infrastructure and processes, including contracts, cooperative agreements, and grants with local, state and federal agencies addressing resource concerns prioritized and developed with locally-led advisory groups as described above.

**Strategic Plans:** The state department of agriculture could collaborate with the local advisory or planning committee to develop a State Strategic Plan for the enhancement and protection of land, air, water, and wildlife through resource planning. The state strategic plan should be submitted to the Secretary in a report on the implementation of projects, activities, and other measures under the block grant program.

In general, the state strategic plans should contain:

1. A description of goals and objectives including outcome related goals for designated program activities;
2. A description of how the goals and objectives are to be achieved including a description of the operational process, skills and technology, and the human capital, information, and other objectives required to meet the goals and objectives;
3. A description of performance indicators to be used in measuring or assessing the relevant output service levels and outcomes of the program activities; and
4. A description of the program evaluation to be used in comparing actual results with established goals and objectives.

**Annual Reports:** The state department of agriculture would annually submit to the Secretary and make publicly available a report that describes the progress achieved, the funds expended, and monitoring results obtained by the planning committee where applicable; and the plans and objectives of the state for future activities under the program.

**Coordination With Federal Agencies:** To the maximum extent possible, the Secretary would coordinate with other federal departments and agencies, including the Environmental Protection Agency and the Department of Interior. The Secretary would also ensure that - on a state-by-state basis — the block grant program was meeting the needs of public benefits of federal programs, such as the Clean Water Act, the Endangered Species Act, etc.

**Payments:** The Agricultural Stewardship block grant program could be used as a means to provide compensation to producers for implementing various on-farm practices that enhance environmental goals. The type of financial assistance may be in the form of cost-share payments or incentive payments, as determined by guidelines established by the state department of agriculture and the local advisory committee.

**Method of Payment:** State departments of agriculture could collaborate with the local advisory or planning committee to determine payment levels and methods for individual program activities and projects including any conditions, limitations and restrictions. For example, an expenditure could be made under a binding agreement providing for payments to carry out specific activities or measures prioritized by the state department of agriculture and local advisory committee.

In addition, states may use expenditures to fund portions of projects and measures to compliment other federal programs such as the Conservation Reserve Program (CRP), the Environmental Quality Incentives Program (EQIP), the Wetlands Reserve Program (WRP), the Forestry Incentives Program (FIP), the Farmland Protection Program (FPP), the Wildlife Habitat Incentives Program (WHIP).

**Confidentiality:** Any information or data regarding technical or financial assistance to landowners or operators under USDA's conservation programs or the agricultural stewardship block grant program should be kept confidential. Any information or data related to an individual farm operator or landowner may be reported in an aggregated form as currently provided by USDA's National Agricultural Statistic Service (NASS).

## Benefits of the Agricultural Stewardship Program

The potential benefits and rewards of NASDA's initiative are enormous because it would:

- Reach more producers, thus providing greater environmental benefits;
- Give states flexibility to address their most critical problems;
- Target resources to where most needed on a site-specific basis;
- Increase local commitment to find workable solutions;
- Emphasize preventive measures, which are more cost-effective and offer more economic returns;
- Simplify program delivery;
- Address the expanding list of new concerns and problems (i.e., carbon emissions, hypoxia, etc.).

NASDA believes there is a strong public policy argument for federal cost sharing to help agricultural producers deal with changes in what the public expects in the way of environmental management. A good analogy would be the assistance provided by the federal government over the past three decades in upgrading municipal water treatment facilities to meet Clean Water Act goals and requirements. Today, our waters are cleaner. Thanks to federal support for necessary local investments, this enormous progress toward a national goal was accomplished without bankrupting small cities and towns.

Today, public expectations, increased regulation, and a growing list of environmental challenges are demanding on-farm environmental enhancements that are beyond the economic pay back – both short and long term - for producers. For example, many conservation practices have high capital or management input costs, but do not generate additional revenues. Agriculture is not organized in a fashion that allows increased costs of production to be passed on to consumers. As such, on-farm expenditures for conservation compete directly with servicing farm debt and other family financial needs. In addition, implementing more stringent and complex standards usually increases the need for more costly approaches and technologies. Farmers are ready to do their part in accomplishing current and future national environmental goals. However, what will be expected of a cattle feeder in North Dakota will be quite different from the challenges faced by citrus growers in Florida.

The Secretary of Agriculture would provide block grants annually to state departments of agriculture. The grants would serve as a means to provide assistance and support, cost-share payments, incentive payments, technical assistance and education to agricultural producers and landowners for environmental enhancements, best management practices, and air and water quality improvements addressing resource concerns.

Under the block grant program, states would have maximum flexibility to:

- Address threats to soil, air, water, and related natural resources including grazing land, wetlands, and wildlife habitat;
- Comply with state and federal environmental laws; and
- Make beneficial, cost-effective changes to cropping systems, grazing management, manure, nutrient, pest, or irrigation management, land uses, or other measures needed to conserve and improve soil, water, and related natural resources.

**Funding**— Ultimately, for conservation and environment programs to succeed, new federal spending is absolutely essential. The case for federal investment is compelling. Needs are large and unprecedented, and states cannot meet this challenge alone. The investment will pay substantial dividends to the environment, public health, and the economy. NASDA recommends an investment of \$8 billion in total funding for the stewardship block grant program. NASDA recommends a distribution formula for allocating funds to the states based on National Agricultural Statistics Service (NASS) survey data for gross receipts for agricultural production in each state and estimated land area in production within each state. Both gross receipts and agricultural land area would be weighted equally in the formula. Additionally, a base allocation of two percent would be provided to all states. *(For a table of state by state block grant allocations under the NASDA-recommended formula, please see Appendix B.)*

**Improving Current Programs**— Farmers and ranchers have provided environmental improvements through their participation in conservation and financial incentives programs established in the 1985, 1990, and 1996 farm bills. These programs include the Environmental Quality Incentives Program (EQIP), Wildlife Habitat Incentives Program (WHIP), Conservation Reserve Program (CRP), Forest Incentives Program (FIP), Farmland Protection Program (FPP), and the Wetlands Reserve Program (WRP).

All of these programs have been successful in achieving conservation progress over the past fifteen years. Generally, we believe they are working well. However, current conservation programs have limited capacity and funding which prevents them from achieving their full potential. NASDA makes the following general recommendations to address these issues:

**Allow more flexibility, innovation, and local control.** Existing programs are constrained by “one-size-fits-all” national rules driven at the federal level by a top-down approach. The majority of environmental and conservation challenges facing farmers and ranchers today are site-specific, complex, dependent on geography and weather, and involve scientific scrutiny and uncertainty. Federal agencies should focus on results and performance, not on process and micro-management. This will help states build on programs that are already working and provide better tools for farmers to get the job done in a cost-effective way.

**Simplify programs.** Numerous conservation programs — each one with specific rules, guidelines, and regulations—complicates the work and is administratively burdensome at the field level.

**Increase funding.** The need and importance of technical assistance to farmers is as important as ever because of increased environmental expectations, increased conservation program participation, and new regulations. Conservation planning requires a broad range of skills. For example, to properly plan, design and implement a conservation practice — such as a grassed waterway — requires detailed knowledge, skills, abilities of many disciplines including agronomy, biology, economics, engineering, hydrology, soil science, land surveying, and more. Despite these needs, NRCS staffing has decreased more than 35% in some states since 1980.

**Identify and articulate goals.** The conservation agenda has expanded greatly beyond the original objectives of soil conservation, wetlands protection, and wildlife habitat enhancement. The public expects the agriculture community to address a wide range of environmental and social objectives — such as climate change, carbon sequestration, water and air quality, biomass production, pest and nutrient management, hypoxia, etc. Land use and other conditions vary from state to state. Individual states may have worthy conservation goals that simply do not fit within national priorities. For example, the current focus of conservation programs appears to have shifted to water quality concerns. While this may be appropriate, it does not address issues faced by semi-arid and arid regions of the country. Farmers and ranchers want to do the right thing. They need to know what is expected, why it is expected and how it can be done in the real world of a business operation.

NASDA offers the following recommendations on specific programs:

**Wildlife Habitat Incentives Program (WHIP)**— NASDA recommends that WHIP be “redirected” to include a new Critical Habitat Incentive Program (CHIP). The new program would establish a higher priority – with incentives - for the enhancement of critical habitat among existing program criteria. NASDA further recommends a higher level of funding for WHIP with a specified proportion of resources dedicated to voluntary critical habitat enhancement.

**Environmental Quality Incentives Program (EQIP)**— NASDA recommends that states be given more flexibility and discretion to decide eligible conservation practices. The national size restriction for EQIP livestock projects limits opportunities for producers. For example, the 1,000 animal unit threshold may seem large in Michigan, but it is small by Kansas standards. In Kansas, it is not uncommon for family farm operations to have upwards of 3,500 animal units. These size operations normally do not generate necessary capital to finance conservation changes. Yet, EQIP cost-share is not available. Often, the work takes longer to accomplish or is not done at all. Furthermore, many practices outlined in the technical guidance for EQIP livestock practices do not work well for “sun downer” farmers—those who work other jobs and are small, part-time producers. In fact, the numbers of part-time farming operations in many states are increasing. Based on experience, these operations do not have the capital — either financial or human — to finance and operate waste facilities that the EQIP program will fund.

Moreover, EQIP only covers the waste system itself. The other costs associated with such systems — pens, bunks, gates — are not covered. If producers do not have the capital to finance these upgrades, then nothing is accomplished. Instead of building a new waste system, alternative non-engineering practices — such as inexpensive wind breaks and new watering sources that will allow riparian vegetation to return — should be allowed. NASDA also specifically recommends the elimination of the \$50,000 payment cap, and the option that EQIP contracts may be written for one year.

**Conservation Reserve Program (CRP)**— The CRP provides cost-share assistance and rental payments to farmers to retire highly erodible and environmentally sensitive cropland for 10 to 15 year contract periods. The program also provides other environmental benefits including improving water quality and enhancing wildlife habitat. The NRCS and the Farm Service Agency (FSA) require maintenance on land enrolled in the program. Burning, mechanical clipping, light disking and spraying are the most often approved methods of maintenance. NASDA believes these CRP management and maintenance requirements can be improved, however. For example, grazing can also be an effective and environmentally sound method for maintenance. Research shows that short-term, high intensity grazing provides the desired maintenance results while providing sustainable wildlife habitat, plant vigor, and improving watershed management.

In that regard, NASDA supports grazing as a management option for CRP maintenance provided the following conditions are met:

1. NRCS must determine that maintenance and management is required on land enrolled in CRP to maintain plant health, ground cover, and improve wildlife habitat;
2. Grazing must be high intensity and short term to provide results that may be more environmentally beneficial than burning, disking, clipping, or spraying;
3. The CRP rental payment shall be reduced at a rate equal to the value of the forage or the maintenance fee; and
4. Payment, time of year, and frequency of maintenance may be determined by the local technical committee. (We would note, however, this policy is intended for NRCS- and FSA-required maintenance of CRP land only and is not to be construed or considered part of a routine grazing plan.)

<b>Budget Score – Conservation</b>						
	2002-07 Average Annual Cost				2002-07 Average Annual Cost	
	FAIR Act Extended	WTO Amber box	2001 Estimate	WTO Amber box	Updated NASDA	WTO Amber box
CRP	\$1,837	\$0	\$1,657	\$0	\$1,837	\$0
Other Conservation	\$0	\$0	\$355	\$0	\$1,500*	\$0
Stewardship Initiative	\$0	\$0	\$0	\$0	\$1,000	\$0
<b>Conservation Total</b>	<b>\$1,837</b>	<b>\$0</b>	<b>\$2,012</b>	<b>\$0</b>	<b>\$4,337*</b>	<b>\$0</b>

\*Includes EQIP(\$1 bil), WRP(\$250 mil), Farmland Protection(\$65 mil), CPGL (grazing)(\$60 mil), Forestry Incentive(\$100 mil)

## **A SEAMLESS FOOD SAFETY SYSTEM**

Long before the terrorist attacks of September 11th redoubled our nation's efforts to protect the food system from tampering, the National Academy of Sciences (NAS) was asked by Congress to assess the effectiveness of the nation's current food safety system. In 1997, NAS provided recommendations on needed scientific and organizational changes in the 1998 release of its report, *Ensuring Safe Food From Production to Consumption*. The committee's report describes the current U.S. food safety system, outlines what an effective food safety system should look like, identifies inadequacies in the current system, and provides recommendations to move towards a more effective system.

The NAS report stated that the current system has many of the attributes of an effective system. It further stated that the current system:

- Is complex with inter-related activities involving government at all levels, industry, university, media and the consumer;
- Is moving toward a science-based approach with HACCP and risk assessment;
- Is limited by statute in employing science-based practices and enforcement;
- Is fragmented at the federal level, with 12 federal agencies involved;
- Is facing tremendous pressure from a number of fronts, including: emerging pathogens, maintaining adequate inspection and monitoring of imported foods and commercial facilities, and from the growing number of people at high risk for foodborne illness.

The NAS report determined that an effective system:

- Should be science-based, with resources prioritized based upon risk;
- Is based on a national food law that is risk-based;
- Includes risk analysis through comprehensive surveillance and monitoring;
- Has a single voice at the federal level, with resources and authority;
- Recognizes the responsibilities and central role played by non-federal partners;
- Receives adequate funding to carry out major functions.

NAS reported that the current food safety system falls short in a number of areas, such as inconsistent and archaic laws that inhibit use of science-based decision-making; lack of integration among the 12 federal agencies involved in food safety; absence of focused leadership at the federal level and lack of similar missions among agencies with regard to food safety; inadequate resources dedicated to research and surveillance; and inadequate integration of federal programs with state and local activities.

Recommendations outlined by NAS in order to move towards a more effective food safety system included:

1. Integrating state and local food safety activities into a comprehensive national plan;
2. Recognizing the federal burdens imposed on state and local authorities that have primary front-line responsibility for regulation of food service establishments;
3. Providing the federal agency responsible for food safety the tools necessary to integrate and unify the efforts of authorities at the state and local levels to enhance food safety; and

4. Funding to support, in whole or in part, activities of state and local officials which are judged necessary or appropriate to enhance the safety of food.

Following up on the NAS report, the President's Council on Food Safety released its draft strategic plan in early 2000. The plan is broken down into three primary goals: risk assessment, risk management and risk communication. The plan essentially supports the NAS findings in that it recommends the development of a seamless federal/state/local food safety system. Likewise, it calls for harmonization between programs at all government levels, the development of infrastructure required to support a seamless system, clear identification of responsibilities at all levels, support and coordination of research activities, and communication systems to enhance food safety and support risk reduction.

NASDA believes, now more than ever, it is critical to move forward on the development of a national seamless food safety system. Such a seamless system must provide an effective mechanism to integrate state, local and tribal systems into the overall plan. Since the vast majority of food safety work currently takes place at the state and local level, the plan should actively support the extensive infrastructure already in place at those levels. NASDA further supports a coordinated effort to move towards greater uniformity in food safety programs, while at the same time acknowledging the need for (and preserving the ability to) responding in a timely manner to unique local food safety problems. NASDA supports the need for a national electronic communication system that will enable information sharing between federal, state and local partners as well as enhancing early warning systems to monitor foodborne disease. Finally, NASDA believes that research is critical to the future of a seamless food safety system, and therefore, supports a mechanism to ensure identification and prioritization of research needs as well as funding for the research.

***Pre-Harvest Food Safety and Standard Setting*** — Pre-harvest food safety relies on activities conducted by livestock and crop producers which prevent or reduce the occurrence of organisms, agents or conditions that pose an animal health or food safety risk. Most current regulatory programs, however, are focused on post-harvest food safety practices (transportation, processing, retail sale). NASDA believes measures can be taken at the farm level to minimize or reduce the potential for foodborne illness further down the processing chain. We believe this because such measures are successfully being taken in many cases.

Many food retailers and distributors are now calling for third-party food safety inspections of their producer suppliers. In these instances, producers engage the services of a third party to verify that plant and animal production is occurring in accordance with a set of standards. The on-farm standards used vary among states, third-party verifiers, buyers, as well as by crop or animal produced. Consistent standards are needed to ensure that food producers can ensure food safety, satisfy consumer concerns, address the emergence of new organisms and satisfy current and potential export markets. On-farm quality assurance standards should be voluntary, well conceived, sustainable over time, flexible, transparent, uniform and include an evaluation mechanism. Many states are already moving forward to design and implement effective producer-oriented quality assurance programs. For example, the California Department of Food & Agriculture is participating in several on-farm quality assurance programs. The structure of the programs and degree of involvement varies by commodity and their unique needs. More basic and applied research, as well as educational efforts, is also needed.

Incentives, technical assistance, and a comprehensive approach can be used to increase the speed and the extent that standards are adopted on farms. Because of the nature of food handling activities on farms, a comprehensive, integrated approach is needed for ensuring that standards are utilized. Verification that food safety standards are being utilized effectively can be accomplished in a number of ways including third party, HACCP, an overarching audit, or by epidemiological indicators.

NASDA supports development of uniform, but voluntary standards for pre-harvest food safety, with input from all parties and a clear articulation of the risks and benefits associated with adoption of those standards. Basic and applied research is needed to define specific interventions that will positively impact food safety, and which can be used in the development of uniform standards. Moreover, pre-harvest food safety efforts should also be integrated with overlapping issues such as nutrient and waste management, environmental protection, rural economic development, and animal health and welfare.

NASDA encourages continued work on the Federal/State National Auditing Alliance to verify good agricultural practices and good handling practices. NASDA also supports the concept, similar to the approach used for environmental protection efforts, to provide federal support and incentives to producers who voluntarily establish verifiable pre-harvest food safety programs. NASDA proposes a Food Safety Quality Assurance block grant program, administered by the states, to facilitate the adoption of innovative food safety assurance programs on farm.

***Biotechnology Food Safety and Labeling***— While industry has the legal duty to ensure the safety of foods it puts on the market, government oversight of foods and food ingredients, whether produced by biotechnology, conventional or organic means is necessary to ensure and maintain a safe and stable food supply. The evaluation of food, food ingredients, and animal feed obtained from organisms developed using rDNA technology does not require a fundamental change in established principles of food safety; nor does it require a different standard of safety. The science that underlies biotechnology-derived foods does not support more stringent safety standards than those that apply to conventional foods. Current Food and Drug Administration (FDA) policy reflects this view.

Numerous authoritative groups worldwide have concluded that modern gene transfer technologies offer no unique risk to human or animal health or the environment. These groups include official commissions, scientific bodies, and international organizations, such as the OECD, and the Codex Alimentarius, which are staffed with experts from all relevant disciplines.

U.S. federal law requires specific labeling on food products to inform consumers of the existence of material facts that are significant and relevant to the issues of safety, efficacy, and purity. Any changes to a food product that alter the chemical or nutritional composition, or allergenicity of the product must be disclosed to the consumer. Under this requirement, if a food derived from modern biotechnology affects any of these aspects, FDA requires that the food be so labeled. If the product is not materially different from its conventional counterpart, it does not require special labeling.

NASDA supports the role and responsibility of FDA in determining appropriate food labeling and to provide regulatory guidance to the food industry on the voluntary labeling of products to meet consumer preferences. The agency should communicate a clear definition as to what constitutes genetically modified food or food products, should establish criteria for “GM Free” and “non-GM ingredient” labeling, and require that voluntary labeling claims can be substantiated by identity-preserved supply chains based on a clear and factual certification process. The Federal Trade Commission should develop comparable guidelines for advertising claims about food biotechnology.

***State Meat Inspection Programs***— State food safety programs are important partners of the federal inspection system. The 1967 Federal Meat Inspection Act and the 1968 Poultry Products Inspection Act established a state-federal cooperative inspection program which requires state inspection programs to be “at least equal to” the federal program. The acts also limit meat and poultry products receiving state inspection to distribution solely within such state. These laws, while stressing the need for cooperation between federal and state authorities, give USDA clear responsibility for setting national standards for meat and poultry inspection.

USDA's Food Safety and Inspection Service (FSIS) annually certifies that each state inspection program is "equal to" federal inspection standards through review of the State Performance Plan. Since passage of the acts in 1967 and 1968, USDA has never unilaterally found that a state inspection program should be discontinued due to inadequacies in its inspection program.

States are allowed to inspect some meat and poultry products for interstate shipment. "Non-amenable" products, for example, such as deer, buffalo, squab, and pheasant, which are not regulated by the federal inspection program, must rely upon state inspection programs to ensure that they may enter interstate commerce. These shipments have been allowed for many years with little or no evidence of any risk to the consuming public. The fact that state-inspected, non-amenable products have been safe for commerce and the consumer proves that the prohibition of interstate shipment of state-inspected meat and poultry has little to do with public health and food safety. NASDA strongly believes that Congress should include provisions in the farm bill which would amend the Federal Meat Inspection Act and the Poultry Products Inspection Act to allow the interstate shipment of state-inspected meat and poultry products.

## **PESTICIDES**

Pesticides are an important component of agricultural/horticultural production systems. Pesticides are utilized in integrated pest management programs to produce abundant, and safe food, fiber, and ornamental crops which sustain the quality of life we enjoy. Laws and regulations ensure that pesticides are used correctly and that adequate protection is provided to applicators, field workers, consumers and the environment. This body of law and regulations is constantly changing to increase protection of human and environmental health based on improvements in technology and new discoveries in science.

The 1996 Food Quality Protection Act (FQPA) redefined the term "food additives" in the Federal Food, Drug, and Cosmetic Act (FFDCA). Due to these changes, pesticides are no longer considered food additives under the FFDCA and are thus excluded from the so-called "Delaney Clause". The 1958 Delaney clause established an ultimately unworkable standard of zero tolerance for any substance proven to be a carcinogen — regardless of the level of exposure. FQPA replaced the Delaney clause with a flexible standard of a "reasonable certainty of no harm" for all pesticide residues on food. This new single standard has brought significant change to pesticide regulation, along with significant impacts on farmers, consumers, and state/federal government.

A key provision of FQPA was that decisions be made on the basis of reliable information and data. In the absence of "available information," EPA may use default assumptions. Realistic risk estimates based on sound science are essential to avoid misguided decisions. Otherwise, valuable pest control options could unnecessarily be canceled. In addition, EPA must establish some orderly process to allow for pesticides no longer supported by tolerances, to clear channels of trade and use. Failure to do so will result in costly disposal problems for states and possibly major disruption in production agriculture should tolerances expire during the use season.

NASDA recommends that EPA publish a "transition report" to describe how the agency reaches its decisions. This would ensure a more transparent system — which could be used to identify data gaps and deficiencies, allow for the development of newly needed data, and let the agricultural community know how tolerance decisions will affect and impact production. EPA should also publish detailed guidelines/regulations for implementation of FQPA. The EPA/USDA Committee to Advise on Reassessment and Transition (CARAT) was created as a temporary organization. NASDA believes the committee should be made a permanent stakeholder body.

**Data Needs** — FQPA emphasizes the need for reliable information about the volume and types of pesticides being applied to individual crops and what residues can be anticipated on these crops. NASDA recommends that EPA publish all of the data the agency uses to make tolerance decisions, and identify the science needed to make tolerance decisions more accurate — i.e., EPA would be required to replace worst-case assumptions, unrealistic models, and anecdotal information with reliable information and data. We also believe USDA should be given more authority to review EPA decisions or at a minimum, EPA should be required to respond to USDA recommendations.

**Sound Science & Harmonization** — Pesticide regulation must be based on sound science. The international harmonization of data requirements, the presentation of data and its interpretation, and risk assessment methodologies is a positive goal. The mutual recognition among states, regions, and nations of each other's standards of testing is important when the standards are equivalent. In working toward international harmonization, the increasing costs of conducting scientific studies that support pesticide registrations must be considered so that unnecessary and duplicative studies are reduced. Harmonization efforts should not jeopardize U.S. agricultural exports, nor should they permit agricultural imports from other countries that cannot meet U.S. health and safety standards. Harmonization must occur at the highest levels of government to maintain the safety, quality, and integrity of our food supply.

The EPA should increase resources and efforts of the U.S./Canada Technical Working Group (TWG) to harmonize pesticide regulations in the two countries. Current efforts of the TWG have focused on new pesticide chemistry. More efforts need to be focused on establishing tolerances for pesticides registered in Canada, but not in the United States. Current imports of Canadian commodities should be disallowed unless adequate progress is made by the TWG to obtain registrations in the U.S. of Canadian-registered pesticides. The EPA must also make a greater effort to accept registration data currently accepted by Canadian officials in support of Canadian registrations. EPA should work with the Canadian Pest Management Regulatory Agency (PMRA) to develop mutually-acceptable joint EPA/PMRA labeling procedures for identical or substantially similar pesticides registered in both countries.

**State-Federal Partnerships and Funding** — States play an important role in the regulation of pesticides. They work cooperatively with EPA to regulate pesticide licensing and certification programs, and protect groundwater resources, endangered species and agricultural workers. States conduct inspections of manufacturers, on farms, at pesticide dealerships, and in the marketplace. States also respond to complaints from a variety of individuals related to alleged pesticide misuses and work closely with the Cooperative Extension Service in educating the public about the use of pesticides, as well as assist in the disposal of canceled and suspended and unusable pesticides. Additionally states facilitate container recycling programs and test sample pesticides as well as commodities. There are numerous other pesticide related functions that states perform. Thus, when states are given new mandates under the FQPA and other federal programs, efforts to maintain and increase funding are essential for implementation of these programs.

Increased regulations delegated to states without adequate companion funding are unacceptable and unproductive. Steps should be taken by EPA to ease reporting burdens and reduce paperwork, wherever possible. Ongoing efforts made by EPA to be as inclusive as possible with their state partners in developing regulations and making decisions should be continued. EPA should set certain basic minimum standards in cooperation with their state partners and avoid costly and labor intensive reviews of state-delegated management plans, thereby allowing sufficient flexibility in pesticide program activities to accommodate the great variety of resources and needs which exist in individual states. To ensure the safety of the American food supply, however, when implementing Performance Partnership Grants, the agency must ensure that all pesticide enforcement and program monies continue to be provided to the state lead pesticide agency responsible for pesticide enforcement. These resources must not be used for other environmental purposes.

**Section 18 Exemptions**— Section 18 of FIFRA permits the application, with appropriate safeguards, of unregistered pesticides for certain emergency conditions if authorized by EPA. Substantial crop losses nationwide are prevented every year by treatments authorized under this important provision.

Examples of Section 18 exemptions with great value to agriculture are those which allowed the use of several fungicides to control metalxyl resistant strains of late blight on potatoes and tomatoes. The failure to control resistant strains of such diseases as late blight could result in the destruction of entire crops within the United States. Such emergencies demand a quick response.

Efforts to revise the Section 18 rules to make the process more efficient and responsive to the changing needs of agriculture must occur. NASDA supports a redefinition of the criteria for significant economic loss, the occurrence of a non-routine event, and of an emergency condition. The state departments of agriculture recommend that EPA base decisions on crop yield as opposed to crop value (or profit loss) in situations where that is a better indicator of pest damage.

NASDA strongly urges granting the ability to issue multiyear tolerances. EPA should delegate authority to the states to reissue Section 18 exemptions, based on the state's confirmation and certification that the basis for an emergency continues to exist. This would make the process more efficient and reduce the paperwork burden and ease the review process both for states and the EPA.

NASDA also recommends allowing emergency exemptions for the purpose of resistance management. Resistance management is increasingly important to preserve existing pest control options. Many integrated pest management (IPM) programs require multiple strategies for effective pest control which may include the use of several pesticides at different stages of plant development and pest life cycles. EPA should allow specific exemptions for resistance management where there is documented scientific evidence of resistance to currently registered pesticides, or where valid research demonstrates that resistance is developing. Finally, NASDA believes that "reduced risk" should be an acceptable basis for granting a Section 18 exemption. This will allow states to provide an alternative to a registered pesticide use when unusual conditions exist which pose unacceptable risks on a temporary basis. It is anticipated that reduced risk emergency exemptions would be rare and would result from conditions difficult, if not impossible, to anticipate in the usual registration review procedures and likely be temporary and localized in nature.

**Certification & Training**— Certification and training of private and commercial pesticide applicators is a function of both state pesticide lead agencies and the Cooperative Extension Service. This program is essential to the safe use of pesticides. While there have been significant changes in the requirements of both commercial and private applicator certification and training programs since their inception, there has been little corresponding increase in funding to the Cooperative Extension Service for this purpose.

If large increases in the numbers of trained and certified service technicians is a goal of EPA, then NASDA believes this objective should be recognized in the State/EPA Cooperative Agreements and reflected in grant fund awards. FIFRA grants for certification and training programs should be consistent in match funding requirements with the 85/15 requirement of other programs such as enforcement and Worker Protection Standards.

# MARKET INTEGRITY, OPPORTUNITY, AND EXPANSION

## INTRODUCTION

Supporters and opponents of the 1996 farm bill agree over one thing: the new law moved U.S. agriculture toward a more “market oriented” policy framework. However, as we move toward the next farm bill, there is less consensus on a more elemental question: what is a market? Is it a place, or a process? Is it the stockyards, or the contract negotiations between integrator and producer? Is it physical or virtual? Is it the open outcry system of the trading pit; or the overnight computer trading programs that commodity exchanges run to reflect the global nature of agriculture?

Indeed, the economy and technology have forced a quantum leap in the business of agriculture, especially in the past five years. Much of the change in agricultural markets has been fueled by expansion — global demand and global competition. This has led to changes in the way commodities are produced and sold. Conversely, new markets have come from contraction too; niche markets provide farmers with opportunities to produce certain new commodities that perhaps have never been produced before. Likewise, niche markets give farmers opportunities to offer commodities that are produced in a certain way — from organic, to GMO free, to value enhanced grains that rely heavily on biotechnology and intensive production practices.

All these — from contract negotiations, to identity preserved, to new uses, to organic produce stands, to global trade, to e-commerce — are markets in which farmers and ranchers must participate to remain profitable and viable in this new century. There will be new markets — i.e., ways in which buyers and sellers meet — that continue to develop in the years to come as economies grow and contract, as technologies wax and wane. Therefore, the task of policy makers is not so much to shape the where and how markets arise, but to ensure those that do develop do so with certain elements of fairness, openness, and integrity.

## MARKET INTEGRITY

***Structural Change and Access to Markets*** — Structural changes in agriculture have led policy makers to look at the issue of concentration. Their goal is to preserve the market integrity of a changing and integrating global food system in a way that protects farmers and ranchers from becoming mere “price takers” yet maintains the global competitive advantage of the U.S. food and agriculture complex. Transparency and price discovery are important elements of fair markets; yet so are confidential negotiations between parties. This is the balancing act that good farm policy must achieve, especially in the area of agribusiness concentration. Addressing the issue of market power and whether farmers are hurt or helped by certain structural trends in agriculture will continue to be a focus of policy.

The basic federal antitrust statutes are the Sherman Act and the Clayton Act. The primary goals of the respective acts are to prevent anti-competitive behavior in the marketplace, and to encourage and ensure competition in the marketplace. NASDA believes the federal government has failed to enforce existing federal law to prevent consolidation, and as a result, the vast majority of family farms and ranches are held captive to an agricultural sector in which consolidation is occurring at a rate never experienced before.

A General Accounting Office (GAO) report issued in 2001, details an investigation it performed on anti-trust matters focusing on agriculture. The report outlines the responsibilities for anti-trust matters, with the major responsibility falling to the Department of Justice’s Antitrust Division (Division), which investigates and prosecutes civil and criminal violations of federal anti-trust laws. During fiscal year 1999, the Division handled over 4,900 matters, of which 4,642 (about 95 percent) were potential mergers filed under the

notification provision of the Hart-Scott-Rodino Act (HSR). GAO reports that the Division estimates 165 complaints and leads related to the agriculture industry were received in fiscal years 1997 through 1999. However, the five legal sections or task forces, and seven field offices that could potentially have handled such complaints and leads used different systems and captured varying levels of detail in their systems. The GAO further notes that it found that the Division where most cases are reported, “did not require its staff to document and track all complaints and leads.” The GAO also found that in matters of public complaints to the agency, “the Division did not know how many complaints it had received, nor did it have complete data on their characteristics.”

The fact that the Department of Justice does not have a definition of “agriculture industry” underscores the fact that consolidation in agriculture has been severely neglected, as evidenced by the few companies controlling the agricultural sector. Furthermore, consolidation among retail grocery stores further exacerbates the situation. For fruit and vegetable growers, this threat is becoming more evident as the market for their product dwindles to a small group of “super” stores.

The control of the animal and plant genetics pool is also consolidating. For example, the genetic base for 90 percent of commercially produced domestic turkeys comes from three breeding flocks. These birds are vulnerable to an avian disease and they lack resistance. On the plant genetics side, should this trend continue, niche producers of feed and grain may find themselves out of a market because they cannot grow organic grain, or grains that are not a genetically modified product.

Larger companies, especially, are seeking greater efficiencies by consolidating and integrating. Studies estimate that the five top retail chains control an estimated 35 percent of the food market today, and will control over 50 percent within the next five years. Even within the foodservice industry, a few companies wield a great deal of ‘consumer’ power. With fewer and fewer companies to sell their product, and the larger buying power of consolidated industries, sellers ultimately have fewer markets for their perishable goods and must increasingly yield to the demands of corporate buyers. Consolidation of industries within the United States is definitely impacting the way Americans do business.

NASDA understands that the economic goal of consolidation is to better serve the ultimate customer — American and world consumers. Indeed, NASDA believes in a free market economy, where agricultural producers and food retailers share a common goal of providing the retail consumer with affordable, safe, and high quality food. Yet, we believe that intervention is necessary to ensure that today’s rapidly changing marketplace is functioning in an appropriate and effective manner toward a mutually beneficial end. The USDA, the Department of Justice, and the Federal Trade Commission, directed by Congress, all have an obligation to understand the changing business dynamic in food delivery today — especially concerning fruits and vegetables — and ensure that marketplace trade practices remain fair. There is no argument that the benefits of consolidation and integration are significant, but if a market is controlled by too few players, the impact of any abuse, however small, can be devastating.

NASDA has grave concerns on the issue of consolidation and its effects on market access, and therefore supports strengthening anti-trust enforcement, including representation of agriculture at the Department of Justice. NASDA also believes a fair price discovery system is necessary for animals and plant products with restriction of packers ownership and control of marketed livestock. The Secretary of Agriculture should be given the authority to prevent reprisals or discrimination within the system and should be provided with necessary funding to adequately oversee and enforce the requirements of the new system.

**Price Discovery** — Markets for almost every commodity are facing increases in the use of marketing and production contracts — which threatens market transparency. With consolidation within the agricultural industry leaving only a few integrated buyers, producers are faced with fewer markets for their product. According to the U.S. Department of Agriculture, the trend is showing that

more producers are entering into some type of contractual agreement, with one in ten farm operators reporting income from contractual agreements. This results in a shift of the balance of power to buyers.

The use and regulation of contracts within agriculture should reflect the quantity and quality of inputs, such as labor and land, the degree of risk assumed by each party, wages, and other factors. Unfortunately, today's contract relationships are often under the cloud of an oligopoly or even a monopoly buyer, and the producer possesses little legal protection to obtain fair returns on his investments. The traditional open-market transparency in agriculture where farmers find prices through futures trading, terminal markets, or auctions is at risk because oftentimes contracts are executed privately or written with a confidentiality clause. Thus, producers are often legally restricted from sharing or comparing price information. It is important to note that not all contracts are negative, however, especially those in markets where prices are easily accessible and that are not dominated by a small number of buyers.

NASDA believes policy is necessary at the state and federal level to protect producers in contract negotiations against issues such as fraud, retribution, and unreasonable confidentiality clauses, as well as providing for plain language review, protecting the right to litigate, and granting a limited time to review a contract. Moreover, certified farmer cooperatives should have the protected right to negotiate contract terms on behalf of their members. Such protection would grant cooperative members an increased ability to leverage a fair price for goods and services. Finally, as a minimum protection for all producers entering into contracts, basic contract standards addressing the abuses in the industry is required in the farm bill. However, any federal legislation should not invalidate any state law dealing with contracts.

**Slotting Fees** — The food retail industry practice of “slotting fees,” as it relates to the produce industry, needs further investigation and study by the federal government. The USDA Economic Research Service and the Arizona state college system have done some initial investigative research, but a systematic in-depth study is needed. Slotting fees are payments made by food producers and manufacturers to purchase shelf space in retail stores; such fees are a controversial issue in the food sector. Critics regard slotting fees as unearned store discounts that give a competitive edge to larger manufacturers who can afford them, while depriving consumers of variety, new product innovations, and possibly more competitive retail pricing. Supporters of the fees contend that they enable stores to make room for the thousands of new products introduced annually protecting grocers from having to shoulder all the risk of stocking items that may not sell.

Slotting-fees, however, are simply not applicable to the fruit and vegetable industry. These fees are structured for food and grocery manufacturers that have a fixed list price for their products. The produce industry, however, is subject to a fluctuating daily market price based on supply and demand for a perishable product. Produce sellers cannot store their product in a warehouse waiting for a price increase to recoup losses and discounts. Therefore, suppliers of fresh produce do not have the capability of predicting long term prices to reliably cover slotting fees.

Moreover, under the Robinson-Patman Act, sellers of any product are required to offer the same terms to all competitive customers. If a retailer demands a special pre-purchase request from a produce grower/supplier in order to secure business, that supplier is placed in a precarious position. Another retailer — whose retail volumes, customer flow, or other economic factors might not warrant the grower/supplier paying similar slotting fees — may, in fact, take action against that grower/supplier under these antitrust laws if not offered the same ‘deal’ as other retailers. As evidenced by the aforementioned example, the system is involved and, at times, confusing, and certainly not suited to the retail practice of slotting fees.

In order to protect growers, packers and shippers, suppliers, and retailers in their goal to serve the consumer, NASDA recommends that the necessary resources be dedicated to investigate and report on the status of the retail industry as it relates to the sale of fruits and vegetables. Specifically, NASDA requests Congress further pursue an investigation of slotting-fees and other “off-invoice” fees in light of the inconclusive September 2000, GAO report. The inability of GAO to collect sufficient data from retailers to respond to the congressional request indicates that this matter needs further federal attention.

***Interstate Shipment of State Inspected Meat Products*** — As stated previously in this document, states already inspect a multitude of food products for interstate shipment, with the singular exception of meat and poultry products. Since all state meat inspection programs must be certified as “equal to” federal standards, prohibiting interstate shipments of state-inspected meat is not a matter of protecting food safety. It is a matter of limiting economic opportunity, for producers and small businesses alike. Most state-inspected meat plants are owned and operated by small business owners. The prohibition of interstate shipment of state-inspected meat — the only such prohibition of any food product — disrupts the free flow of trade and restricts the ability of American small business entrepreneurs to economically compete against foreign producers. Consolidation in the meat packing industry continues to leave smaller farmers and ranchers with fewer buyers for their livestock and poultry, further pressuring their financial situation already stressed by low commodity prices. Allowing more competition into the system by permitting the small meat processors to sell their product in a national marketplace will help farmers have more options to sell their livestock at a better price, without sacrificing food safety. Three USDA advisory panels — the Advisory Committee on Meat and Poultry Inspection, the National Commission on Small Farms, and the Advisory Commission on Agricultural Concentration — all have called for the elimination of this inequity.

***Production and Marketing of Biotech-Enhanced Crops*** — The presence of biotech products in the marketplace, coupled with the disparate status of regulatory approvals in major world markets, and the changing patterns of consumer acceptance, has introduced great complexity to the U.S. bulk commodity handling system, presenting the trade with a major management challenge. No longer can farmers plant seed and assume the harvested product will be accepted universally by all buyers, or under traditional terms and conditions.

The impact on the industry clearly illustrates the urgent need to develop an internationally accepted certified marketing system based on sound-science and consumer preferences which can assure that all biotechnology-enhanced products will reach appropriate markets. As new varieties become available it will become more important to have instituted, prior to commercialization, a proven channeling/segregation/certification program guaranteeing that tolerance levels are met. Such a system will be necessary to provide customers with the products they desire while supporting the development, production and promotion of additional biotech crops that are acceptable to domestic and foreign customers. Until such a system is clearly established, new biotech events should only be approved after international customer acceptance has been achieved.

The tools necessary to implement such a system are:

- A standardized definition of biotechnology.
- Standardized tests and methodology for detecting biotechnology-enhanced products within the food chain.
- A threshold or tolerance for adventitious or accidental inclusion of biotechnologically-derived traits consistent with sound science and commercial reality.

- Assured availability of “pure seed” to meet internationally accepted tolerance.
- A “stewardship program” consisting of biotechnology and seed companies working together with producers to ensure that crops are grown in accordance with recommended practices and marketed through appropriate channels and certification systems.
- Effective regulatory oversight to assure integrity of marketing system. This includes sampling protocols and the testing of equipment that needs calibration, such as near infrared (NIR) machines.

**Harmonization of International Standards** — For the last quarter century, the world trading system has struggled with the question of how to prevent technical standards from becoming non-tariff barriers to international trade. Technical standards are requirements, in the form of either product characteristics or process-and-production methods, imposed by importing. Generally, such technical standards can be important to achieving certain legitimate public goals: e.g., the protection of life and health, the prevention of deceptive practices, the protection of the environment, necessary standardization for delivery of common services, etc. However, it has long been recognized that technical standards can also be — and have been — imposed for protectionist purposes.

With increased international trade, the U.S. has experienced significant increases in detecting plant and animal pests and diseases at our borders. These pests and diseases could have devastating economic impacts to U.S. agricultural producers if left unmanaged by the U.S. and trade alliances like the WTO. Unfortunately, U.S. Customs, the U.S. Department of Agriculture and the U.S. Food and Drug Administration have not been able to provide adequate border inspections and surveillance efforts due to budgetary and staffing constraints, leaving the enforcement of federal inspections, in large part, to state governments.

The WTO Agreement on Sanitary and Phytosanitary Measures (SPS Agreement) requires countries to base health and safety measures affecting products in international trade on sound science and appropriate risk assessment. NASDA views the SPS Agreement as striking the correct balance in providing for the protection of public, animal, and plant health while at the same time improving conditions of trade. NASDA urges the United States Government not to agree to reopen the SPS Agreement in future WTO negotiations.

Despite the adoption of the SPS Agreement, unjustified non-tariff barriers characterized as SPS measures continue to be maintained by some of our trading partners in contravention of international trade rules. NASDA urges the U.S. government to make the elimination of such barriers a priority and to take all appropriate actions, consistent with our international rights and obligations, to redress this problem.

The SPS Agreement anticipates increased harmonization of sanitary and phytosanitary measures on the basis of standards, guidelines and recommendations of the Codex Alimentarius Commission, the Office International des Epizootics and the International Plant Pest Convention. The United States actively participates in the standard-setting activities of all three organizations and commits considerable manpower and resources to these activities. At the same time, U.S. regulatory agencies rarely accept these standards as domestic standards for the United States. NASDA notes the SPS Agreement obligation to “harmonize [SPS] measures on as wide a basis as possible” and to “base [SPS] measures on international standards, guidelines and recommendations, where they exist...” To this end, NASDA urges U.S. regulatory bodies to adjust their policies and practices in a manner that would permit increased harmonization with international standards, consistent with their duty to protect public, animal and plant health of the United States.

NASDA urges U.S. regulatory bodies to work on a bilateral or multilateral basis with other trading partners interested in the increased harmonization of SPS measures to reach agreements that would permit trade, as appropriate, on the basis of mutual recognition, equivalence or reciprocal agreement on the adoption of international standards.

Technical standards and requirements that are not sanitary or phytosanitary measures (e.g., certain labeling requirements) can also affect international trade in food and agricultural products. The international trade rules applicable to these types of standards are contained in the WTO Agreement on Technical Barriers to Trade (TBT). NASDA is concerned that the TBT Agreement does not currently provide for greater international harmonization of standards, and does not contain the types of enforceable disciplines that would permit U.S. exporters to effectively challenge protectionist trade measures. NASDA urges the U.S. government to pursue a stronger and clearer TBT Agreement in the next round of multilateral negotiations.

Increased international trade in agricultural products requires increased commitment to, and resources for, the regulatory systems that protect U.S. public, animal and plant life and health. Increased international trade, while presenting additional economic opportunity, also poses potentially increased risks from exotic diseases and pests. U.S. trade policy must reflect a balance between the commitment to science-based international rules, and the continuing obligation to protect the American public and the U.S. agricultural producing sector.

## **NEW OPPORTUNITIES**

American agriculture faces a simple, yet compelling, fact: Ninety five percent of all food consumers live outside the United States. From the Colonial days when tobacco and cotton were sent to Europe, to today where Asia's livestock industry is becoming a customer of such value-enhanced U.S. produced grains as low phytate corn, exports are an important economic underpinning of American farm production. With global competition — particularly from South America — growing keener, U.S. farmers need the federal and state government to continue to fight to open more markets and tear down more barriers to U.S. agricultural exports. Indeed for American farmers and ranchers to truly prosper, the federal government must continue its efforts to liberalize world agricultural trade.

Two key issues for U.S. agriculture's competitiveness in export markets are value-added production and biotechnology. Value-added products capture more of the retail dollar — or yen, or won, or peso, or euro — for the farmer. This added value can come from processing or specialized traits. It is the responsibility of both the industry and government to support the expansion of value-added opportunities.

Meanwhile, as biotechnology has the potential to greatly add value to U.S. agriculture, U.S. agricultural policy must come to grips with the real world events in biotechnology. Domestic policies need to be developed in consultation with those who purchase and handle grain and other biotechnology crops to assure that purchasing policies that could lead to premiums or discounts on products based on biotech traits are known to producers before they have put their crops in the ground. Moreover, internationally, U.S. policies must address third country actions that effectively block sales of food products with GMO ingredients.

Finally, the area of e-commerce holds potential for agriculture. In a global economy, where agricultural production is often located far away from the end consumer, the internet can bring buyers and sellers of agricultural and food products and services together in new and better ways. Effective federal policies that address issues from transaction transparency to the digital divide and rural internet access are the key to economic successes that e-commerce can bring to American agriculture.

**Trade Policy** — A basic tenet of the free trade principles that underlie U.S. trade policy is open access to all markets on the basis of comparative advantage. Everyone benefits if the market determines who can produce the highest quality product at the lowest cost. In theory, if the market were permitted to operate in this fashion, there would be optimum use of resources and optimum general welfare.

Totally free and unencumbered markets do not, however, exist. Governments have historically intervened, and continue today to intervene, in various ways. For example, by levying border taxes on imports; subsidizing particular groups by providing government funds or by requiring economic transfers from other sectors; imposing non-tariff restrictions such as quotas, licensing schemes or technical requirements; or regulating imports for health or safety purposes. The current international trading system — the GATT Agreement that has been in place for nearly fifty years and the more recent WTO Agreements augmenting it — attempt to minimize government intervention, and to make those interventions that are agreed as permissible, more predictable and transparent.

The fundamental thrust of GATT/WTO rules is to move the international trade system toward a “tariff-only” regime, eliminating trade distorting subsidies and non-tariff trade barriers by bringing further discipline on regulations to ensure they are necessary and based on objective criteria (e.g., sound science and appropriate risk assessment). Tariffs remain the principle legitimate type of government intervention, but are subject to negotiations and progressive reduction or elimination. Once a tariff level has been negotiated, it becomes “bound” under the rules — i.e., the country commits to apply that tariff level or lower, and not to raise that tariff again except in limited and unusual circumstances.

Prior to the Uruguay Round, the U.S. Schedule contained the greatest percentage of bound agricultural tariffs of any GATT nation, and the lowest average tariff levels. In the Uruguay Round negotiations, the United States proposed — and its trading partners ultimately accepted — that all agricultural tariffs would be bound and reduced on the basis of a standard formula. In addition, non-tariff barriers such as quotas, variable levies and discriminatory licensing schemes were eliminated and converted to tariff-equivalents which were bound and reduced. Countries that had previously imposed non-tariff barriers on agricultural goods were required to provide guarantees of minimum or current access through the use of tariff-rate quotas or comparable mechanisms. Among the non-tariff barriers that were converted to tariff-rate quotas was the U.S. section 22 program, which limits imports of certain “import-sensitive” products.

Despite the success of the Uruguay Round in addressing non-tariff barriers and in lowering all agricultural tariffs, there is not a level playing field. Even after the Uruguay Round results, the United States remains far more open to imports of agricultural products than any other country in the world. U.S. tariffs on agricultural products range, on average, between 5 and 8 percent *ad valorem*. Tariff levels for the rest of the developed world have been estimated to be, on average, in the range of 40-50 per cent *ad valorem* and for the developing world, over 80% *ad valorem* on average.

U.S. concerns about maintaining market access have also focused on the threat of displacement in third country markets posed by subsidized exports. The United States implemented a number of export programs designed to maintain U.S. market access abroad. Congress authorized more than a half-billion dollars annually in direct subsidies to increase exports under the Export Enhancement Program (EEP), the Dairy Export Incentive Program (DEIP) and two smaller programs to encourage exports of oilseed products. The expressed purpose of these programs was to maintain market access for U.S. agricultural products by meeting subsidized competition from other origins.

NASDA believes export financing and credit guarantee programs like GSM 102 and 103, are important resources for agricultural producers entering the foreign market place. We believe these programs should be expanded to cover transportation costs from the U.S. border to export destinations. This expanded coverage would fulfill the programs' stated purpose of assisting foreign buyers with the purchase of U.S. agricultural commodities, thereby furthering the goal of maintaining or increasing the exports of such products.

The export success of the United States' world-competitive agricultural and food sectors is primarily dependent upon their ability to gain and maintain access to foreign markets, and to compete fairly without facing highly subsidized competition. The Uruguay Round Agreements began the process of improving market access and reducing subsidies, but that work is far from complete. NASDA urges the Administration to pursue further trade liberalization in the next round of multilateral negotiations. Primary emphasis in those negotiations should be on complete elimination of export subsidies within a time certain, and increased market access for competitive American products.

U.S Trade Policy has historically favored the elimination of export subsidies. The formulation of the Export Enhancement Program (EEP) and similar policies became necessary because U.S. exporters faced unfair and highly subsidized competition from the European Union — which currently provides 85% of the world's export subsidies. NASDA would support the elimination of the EEP and similar programs, but only when it is part of a world-wide commitment to end export subsidy practices.

Finally, our trade negotiators must have the ability to enter into trade negotiations without reservation. They cannot enter into serious trade negotiations hindered by the knowledge that other countries may be less willing to negotiate earnestly with the United States — knowing that Congress may alter whatever agreements are reached. The United States should have the tools necessary to continue to play a role in the trade liberalization process. It is very important that trade liberalization continue so that the agriculture industry can compete fairly in the global marketplace. Simply stated, trade is paramount to the success of agriculture. NASDA strongly recommends that the United States Congress pass Trade Promotion Authority (TPA) for the President.

**Export Promotion** — American producers compete in an aggressive foreign market. A USDA/ERS report shows the European Union and other foreign competitors outspend the U.S. by twenty to one on agriculture export subsidies and market promotion. They are spending more than \$100 million just to promote sales of their agricultural products into the U.S. alone. To promote a long term sustained economic recovery, promotion of U.S. agricultural products to foreign markets is of utmost importance to domestic agriculture.

To counter this imbalance, U.S. exporters have relied on several market promotion programs: the Foreign Market Development (FMD or "Cooperator Program) and the Market Access Program (MAP, previously known under the acronyms TEA or MPP) under which the government assists in conducting food fairs, in advertising of U.S. products, and in other general promotional activities.

Neither the FMD nor the MAP are considered to be an export subsidy. Although they are considered to be "domestic support measures," they fall into the so-called "Green Box" category and therefore do not have to be reduced or changed as a matter of WTO rules. However, funding for these programs — and MAP in particular — has declined over time.

NASDA supports legislation that would authorize up to \$200 million for USDA's Market Access Program (MAP) and provide \$35 million for the Foreign Market Development (FMD) Cooperator Program for cost-share assistance to help boost U.S. agriculture exports. Legislation should also allow for unused Export Enhancement Program (EEP) funds, up to 50 percent, to be used for related market development and promotion activities.

NASDA also believes that funding for the Foreign Agricultural Service (FAS) to administer the MAP should increase proportionally if funding for MAP increases. This would ensure proper administration of the program and secure sufficient staff and resources to monitor and oversee the program. The budget reductions for FAS operations impede access by American agriculture.

**International Market Access for Biotech-Enhanced Crops** — The United States must work toward the goal of internationally accepted, science-based standards for trade in biotechnology-enhanced products. These science-based standards must include testing methodologies, sampling protocols, and tolerance levels. Given the novelty of agricultural biotech products, harmonized regulatory oversight by major trading countries will be a work in progress for quite a while. Indeed many countries have no approval process for these products at all. The U.S. government must participate in all appropriate international, multilateral and bilateral forums to ensure that all international standards, guidelines or recommendations for biotech commodities and food are based on sound science and prudent risk analysis. The goal of this effort is to ensure fair trade practices that allow for the unrestricted shipment of such commodities and products in international markets.

The international bodies established to administer the sanitary and phytosanitary agreement of the World Trade Organization should continue to have the authority to regulate the international trade of genetically enhanced agricultural products. The United States should use all available means to improve international understanding of the science-based processes used by U.S. agencies when approving products that have been developed through biotechnology. The Codex Alimentarius Commission of the United Nations is currently developing international guidelines for analyzing the risks of foods derived from biotechnology. Countries may use this list in establishing their own product approval regulations, as many countries simply adopt the Codex standards as their own. For this reason, the Codex Alimentarius Commission of the United Nations should fast-track this process.

In a customer-driven market, the terms of product acceptability may change rapidly. There is additional risk in this kind of marketplace that can be managed only if there is good communication at every level of the food chain. If the United States does not have a system that can reliably and consistently deliver products that the customer wants, U.S. agriculture may lose part of its customer base.

**Value-Added Processing** — As the farm economic situation remains weak, farmers are looking for new markets in which to sell their products. Producers traditionally look to expand their market share through exports, but they also realize there is an opportunity to increase their markets through value-added processing. Strategies to increase market share through value-added processing include cooperative and other business ventures focused on agricultural processing, farmer-owned cooperatives, and marketing the value of 'high-end' crops and livestock. The benefit of cooperatives and other business ventures is the potential for farmers to capture a greater share of the value of their product, while keeping more dollars in their local and regional economies, instead of exporting raw commodities from rural communities.

Farming today is a high-risk, low profit margin business, and is one of the few businesses that must buy its inputs retail and sell its output wholesale. Small farmers are quickly recognizing that if that are to increase their economic returns from the products they raise, then need to command a greater share of the consumer dollar by adding value to their products. A stumbling block to value-added processing at the producer level is the lack of access to technology and financial resources to implement a business plan for value-added processing. It is important that agencies such as USDA's Rural Business-Cooperative Service give attention and focus to farmer-owned cooperatives to increase value of the farmer's product in the marketplace.

NASDA recommends the Rural Business-Cooperative Service include small farm operations and provide education (technical and business planning) and financial resources to enable these small producers an opportunity to add value to their products and market them to retailers and consumers. Most importantly, oversight of the program should ensure that the actual business operation be based in a local community and that financial assistance benefits small farms. NASDA also recognizes the Small Farms Commission Report and supports its recommendations, especially on the point of establishing small farm business councils at the state level, which includes the involvement of state departments of agriculture.

**Aquaculture** — Aquaculture - the business of farming aquatic plants and animals — is the fastest growing segment of U.S. agriculture. NASDA believes aquaculture should be considered a form of agriculture in the broadest sense and that aquaculture products should be viewed and treated as agricultural commodities. This industry should have access to USDA's crop insurance, financing, and marketing services. Development of the aquaculture industry would be enhanced if the USDA's leadership role in aquaculture was reaffirmed. Furthermore, NASDA encourages USDA to work with other federal and state agencies to enhance the role of aquaculture within the agriculture industry.

NASDA believes the development of sound marketing strategies will provide increased opportunities for aquaculture through research, education, financing, and market development to encompass regional, national, and international perspectives. The funding for an annual aquaculture survey to provide statistics on the industry would aid in this education process.

NASDA endorses the HACCP principles for aquaculture processing and encourages USDA and FDA to provide on-going training for the industry that is both cost-effective and focused. Non-lethal, rapid diagnostic tests for aquatic diseases are necessary to ensure the transportation of pathogen-free fish. NASDA believes safety and quality standards throughout the U.S. aquaculture industry are imperative. In order to ensure coverage of all species groups, both domestic and foreign, identification methods should use country of origin as a differentiating mechanism. The development of the U.S. aquaculture industry is severely constrained by a lack of federally-approved chemicals, vaccines, and therapeutic compounds. NASDA encourages the enhancement of the role of the National Research Support Program (NRSP-7), formerly the IR-4 Program, in order to provide further assistance to aquaculture for development of minor use drugs.

**E-Commerce** — Internet technology and electronic retail business-to-customer or business-to-business (e-commerce) is still developing. As the technology and business models for commerce on the internet become more sophisticated, the internet is evolving into a viable marketing and sales opportunity for agricultural products, despite some early retrenchment.

While the long term outlook for the future of e-commerce in agriculture remains positive, there is still uncertainty about the ability of the internet to consistently boost farm profits. Also, there is some reluctance among farmers and farm businesses to forsake tested methods of doing business, and embrace new technology that has yet to withstand the test of time. Specific concerns are internet security (privacy and financial), sharing price information, and investment of time and resources into the technology and training of employees. If these obstacles can be overcome, there is a tremendous opportunity for e-commerce to help small- and medium-sized agricultural businesses develop new products and markets, interact more quickly and efficiently with suppliers and customers, and improve productivity by increasing efficiency and reducing transaction costs and paperwork. These businesses can also take advantage of the technology by interacting with customers, suppliers, and the public, and for external support functions such as personnel services and employee training.

NASDA believes there needs to be structural and 'social' integrity for consumers and businesses to use the internet and wireless communication as a business tool. To this end, NASDA supports legislation that will protect the privacy of consumers who use the internet and wireless communication. The Federal Trade Commission should prescribe regulations to protect the privacy of personal information collected from and about individuals on the internet and to give individuals more control over their personal information. NASDA suggests that Congress make it unlawful for a commercial website operator to collect personal information online from a website user unless the operator provides certain assurances, including notification of the information's use and opportunity to limit the use of the information for marketing purposes or disclosure to third parties. To assist businesses, NASDA also recommends that the National Institute of Standards and Technology (NIST) focus on assisting agriculture to successfully integrate and utilize electronic commerce technologies and business practices. Further, NIST should be authorized to identify and assess critical enterprise integration standards and implementation activities for these businesses.

### **MARKET EXPANSION: CREATING NEW DEMAND**

New uses of agricultural commodities hold the promise of "shifting the demand curve" for agriculture well beyond the current food and fiber sectors. In many ways, these new uses are not new at all; it's a trend back into the future. Early in the industrial revolution, many industrial inputs were based on plant and animal products. Vegetable oils were used to make paints, varnishes, soaps, and lubricants. Methanol was used as an industrial solvent, and later to produce the first generation of plastics. Petroleum-based products squeezed agricultural materials out of the industrial markets to a large extent by the 1920s and 1930s when agricultural-based materials accounted for about 35 percent of industrial inputs. During the decade of the 90s, that share dropped to about 15 percent — much of which was for producing paper.

At the dawn of a new century, environmental interests, rising energy costs, and national security concerns are spurring renewed interest in plant and animal feedstocks to industry. In 2000-01, fuel ethanol production from corn set new monthly production records for 23 of 24 straight months. The challenge is to find similar opportunities in pharmaceutical, industrial, and other energy sectors.

Moreover, a greater challenge to "think outside of the box" lies in the area of environmental enhancement. The desirable public benefits of green space, buffer strips, carbon sequestration and other positive contributions from well managed farms can be quantified, and can provide an entirely new market for farmers — the opportunity to market environmental benefits as "commodities." It also provides society with invaluable net gains in air and water quality.

Throughout history, agriculture's primary purpose has been to provide a source of food and fiber. Agricultural policies reflect that purpose by focusing more on increasing yields for traditional uses and on expanding international markets, rather than finding and promoting new uses for farm commodities. That focus has changed recently, as yields have expanded and the supply of food and fiber commodities have begun to exceed demand. International trade competition has increased. At the same time, the use of non-renewable resources, such as fossil fuels and petrochemical plastics are causing environmental concern and becoming more costly to secure.

The high environmental costs of retrieving, transporting, using, and disposing of non-renewable resources is becoming increasingly apparent. There is an increasing industrial need and demand for agricultural-based products as an alternative to those produced from fossil fuels. Also, many other non-renewable resources have to be imported, increasing the nation's trade deficit.

In response, processors and manufacturers have looked to America's plentiful renewable agricultural resources to prevent and solve various social and environmental problems and to improve quality of life. Technological advances have made agriculturally-based goods more competitive in the marketplace. As more of these products become available, demand is likely to increase as well.

NASDA believes that industrial and pharmaceutical uses for agricultural products offer U.S. farmers a tremendous opportunity for market growth. In order for new uses of agricultural products to be realized to the greatest extent practicable, NASDA believes that additional crop research is needed to develop alternatives to traditional uses of agricultural products. Agriculture's expansion into non-traditional industries will boost rural economies, with a positive economic and environmental ripple effect throughout the nation.

NASDA supports the development of alternative fuels such as ethanol, biodiesel, and other biomass fuels and supports extending the federal tax credit for ethanol. NASDA also supports the minimum oxygen standard of the 1990 Clean Air Act Amendments and the replacement of MTBE with ethanol and other biomass fuels to meet that standard.

# INVESTMENTS IN CRITICAL NEEDS

## INTRODUCTION

Given agriculture's vital role in the national economy, its important contribution to the nation's balance of trade, and the vast amount of land in the stewardship of America's farm and ranch families, we must make sufficient investments in programs and infrastructure to meet agriculture's critical needs.

Increased international trade in agricultural products requires increased commitment to, and resources for, the regulatory systems that protect U.S. public, animal and plant life and health. Congress must commit the additional resources necessary to permit U.S. regulatory agencies and their state partners to safeguard the nation's agricultural producers in light of this increasing trade.

**We must make sufficient investments in programs and infrastructure to meet agriculture's critical needs.**

Federal and state farm programs rely on accurate and timely statistical information concerning acreage, production, stocks, prices, land use and income. This data has become indispensable to ensure an orderly flow of goods and services among agriculture's producing, processing, and marketing sectors. Reliable, timely, and detailed crop and livestock statistics help to maintain a stable economic climate and minimize the uncertainties and risks associated with the production, marketing, and distribution of commodities.

The global, high-tech, environmentally-sensitive world in which American agriculture now must operate requires the public support of sound, progressive agricultural research. Yet, the National Science Foundation reports that money for basic research in agriculture now lags considerably behind that for other life and biological sciences. Public funding ensures that concerns such as a safe and secure food and fiber system, a healthy and well-nourished population, harmony between agriculture and the environment, global competitiveness, and general economic development will be addressed.

Nearly half of our agricultural production is exported and a large factor in our competitiveness in the world marketplace has been the efficiency of our transportation system; our railroads, highways, and waterways. Yet much of that infrastructure is in serious disrepair. Without a substantial investment to improve our infrastructure, we cannot hold our preeminent position in food production.

Biotechnology has the potential to greatly add value to U.S. agriculture. To fully realize this potential, U.S. regulatory and trade policy must come to grips with the real world events in biotechnology. Governments, biotech companies, producers, processors, and the scientific community must work to maintain a responsive regulatory system in which the public has confidence.

## SAFEGUARDING PLANTS AND ANIMALS

Expanding global trade in agricultural products has created tremendous commercial opportunities for the nation's farmers and ranchers. At the same time, it has exposed our producers to pests and diseases that could simply devastate our agricultural production base. More than ever, safeguarding the nation's producers, and our natural resources, against the potential devastation that exotic pests and diseases can cause is of paramount importance.

Examples of the disease threats abound. The Asian long-horned beetle outbreaks in New York and Illinois, recent discovery of potato wart in Canada and Plum Pox Virus in Pennsylvania and Canada, the threat of foot and mouth disease, and concerns over Bovine Spongiform Encephalopathy (BSE), are prime examples of threats to our plant and animal industries and natural resources. Smuggling has been and will continue to be a threat to transmit these diseases. And as we have all learned, bioterrorism — intentional acts to introduce destructive biological agents — is another serious and increasingly more ominous threat.

As a nation, there are several actions that we can take to defend ourselves against these threats to our agricultural industry and natural resources, while maintaining our open borders to fair trade. They include:

1. Increased surveillance to detect pest and disease outbreaks that create new threats and risks;
2. Risk analyses to determine the potential economic harm, potential pathways and potential for introduction, and appropriate risk mitigation measures;
3. The enactment of appropriate federal foreign quarantines or other measures;
4. Effective quarantine enforcement off-shore and at ports of entry;
5. Early detection of new pest and disease infestations; emergency action to eradicate serious pests when feasible;
6. Ensuring the availability of superior scientific support, minimally in the form of accurate and timely diagnostics;
7. Research on improved pest and disease exclusion, detection, and eradication methods;
8. Education to gain industry and public support for safeguarding activities.

The plant and animal safeguarding system must be strengthened and continually improved to meet the challenges and help us to take advantage of expanded trade opportunities. While technological advances are made every year in an effort to reduce pest and disease risks and protect the U.S. animal and plant population, technological advances also create opportunities for smugglers and terrorists. Research and development is required to provide the tools needed to keep regulators in front of both intentional and unintentional offenders. To this end, NASDA urges Congress to commit the additional resources necessary to permit U.S. regulatory agencies to maintain a high level of health protection in light of increasing imports. Also these agencies should substantially increase the level of border inspection, which is currently inadequate. Finally, it is critical to increase assistance to local and state authorities as partners in the protection of public, animal and plant life and health.

## **ANIMAL ISSUES**

The future well being of our domestic animal industry rests in our ability to maintain animal health. Since the first quarantine laws were passed nearly 100 years ago, NASDA has supported efforts to keep serious animal diseases of all types from gaining a foothold in North America. Recently, NASDA chaired an external stakeholder review of the U.S. Department of Agriculture's Veterinary Services. A 2001 report entitled, "The Animal Health Safeguarding Review" is the result.

The report concluded that our ability to exclude animal disease is severely stressed due to the explosion in international travel and trade. It outlines over 170 specific recommendations for improvement of our safeguarding system for animal resources. While inclusion of the details of the report as part of this farm policy document is not appropriate, NASDA highly recommends that the Congress review and, where appropriate, assist with implementation of its recommendations.

The USDA's Veterinary Services (VS) is a key component of our animal industry safeguarding system. The "Animal Health Safeguarding Review" report noted that, as a leader in international trade and travel, the United States must take the lead in developing a world class system of surveillance, exclusion, detection, diagnosis and response. VS seems to be one of those programs that are often spoken of as being victims of their own success. During the 20<sup>th</sup> Century, VS has led successful disease eradication efforts for many animal and bird diseases. Those successes became the catalyst for less tangible, yet crucial, VS challenges.

NASDA recommends that Congress and USDA must provide funding, and act to rebuild the state and national infrastructure for emergency disease preparedness and response. A comprehensive, coordinated, and integrated "National and International Surveillance System" is needed to exclude foreign animal diseases, protect, and improve animal and public health; and meet international surveillance requirements.

**Funding** — NASDA recommends that a combination of user's fees for exclusion and line item appropriations be established to adequately fund animal disease surveillance, early detection and emergency response activities and the support activities of those functions. Export user fees should be substantially reduced or eliminated to guarantee that they do not become a hindrance to our export competitiveness in international trade.

**Facilities/Research and Development** — A 1992 report highlighted the serious facility problems at National Animal Disease Center Animal Research Center (NADC-ARS). As a result, a master plan for NADC-ARS was developed in 1997. Implementation of this plan was estimated to take 19 years to complete. Independently, APHIS recognized its own facility shortcomings in 1988 and developed a master plan to upgrade its them. NASDA recommends full funding for the accelerated plan developed by USDA. NASDA believes the USDA's existing facilities are inadequate. It is of utmost importance that the U.S. is equipped to meet new demands placed on these facilities. NASDA supports full funding for new and improved facilities and the expeditious completion of those projects.

**Animal Disease Control Programs** — The United States is nearing completion of several disease control programs of significance to the economic viability of livestock production agriculture. Bovine tuberculosis, bovine brucellosis, swine brucellosis and pseudorabies are examples of diseases that will likely be eradicated in domestic livestock. Funding cuts and other resource constraints threaten the ability of USDA, specifically the Animal and Plant Health Inspection Service (APHIS), to complete these important programs.

NASDA believes that disease control programs are essential if eradication of animal and poultry diseases and the prevention of the introduction or outbreak of foreign or domestic diseases is to be successful. Priority should be given to programs whose efforts are aimed at preventing the outbreak of animal health diseases and protecting our nation's domestic livestock from foreign diseases. Valid tests should also be developed to properly detect diseases that pose a risk to animal health. Some animal health diseases that require specific attention are:

- Avian Influenza
- Bluetongue

- Bovine Spongiform Encephalopathy
- Brucellosis
- Johnes Disease
- Pseudorabies
- Raccoon Strain Rabies
- Scrapie
- Tuberculosis
- Vesicular Stomatitis
- Chronic Wasting Disease
- Anaplasmosis
- West Nile Viral Encephalitis

NASDA believes that any comprehensive program to control or eradicate disease from domestic livestock should include provisions for testing, quarantining exposed animals, and indemnifying diseased animals. All susceptible species should be included in regulations addressing disease control. Moreover, consideration should be given to industry funded insurance initiatives that provide indemnification for disease exposed domestic livestock.

***Emergency Disease Preparedness/Response*** — Government infrastructure for emergency animal disease preparedness has increased significantly at both state and national levels due to the foot and mouth disease threat. USDA grants should continue to state departments of agriculture to assist in emergency preparedness. Furthermore, the emergency operations center at Riverdale, Maryland, is a high priority and must be brought to full operational status. USDA, the states, industry, and regional groups must work in concert to improve communications and to prepare for dealing with emergencies involving the introduction of foreign animal or poultry diseases. NASDA supports the passage of the Animal Health Protection Act (AHPA) introduced in Congress. The AHPA would be a powerful tool for safeguarding the United States from dangerous incursions by granting the USDA broader authority.

***Uniform Disease Testing*** — Uniformity in livestock disease quarantine protocols between the United States, Canada and Mexico demands some attention. Disease testing requirements that are applied by all three countries would assure that protocols are being met and that each country's animal and public health is adequately protected. NASDA believes that the United States, Canada, and Mexico should work together to develop disease testing protocols which are based on the assessment of risk of disease introduction and to develop uniformity and transparency in disease control programs.

***Animal Damage Control*** — USDA's Wildlife Services program (formerly the Animal Damage Control program) provides leadership in managing problems caused by wildlife. Managing wildlife degradation is important to agriculture and natural resources, to minimize potential threats to public health and safety, and to protect other species. NASDA supports the efforts of the USDA to manage wildlife damage and to protect American agriculture and other aspects of human life.

## **PLANT ISSUES**

Protecting the health of our nation's crops is becoming an increasingly important and difficult task. The passage of trade agreements has increased the flow of fruits, vegetables, and propagative plant materials across our borders, making the United States more susceptible to plant pests and diseases. The possible introduction of foreign plant pests and diseases, coupled with current efforts to control pests and diseases already inhabiting the United States, and the phase out of methyl bromide use, make the need for basic and applied research more important. Research should be aimed at preventing the introduction of pathogens, controlling plant pest and diseases and developing new methods for reducing and eliminating potential plant health hazards during the production process.

**Domestic Plant Pest and Disease Issues** — The agriculture industry is faced with wide-ranging plant pests and diseases that threaten to damage crops and cause farmers to suffer severe economic losses. Programs have been established at the federal and state level to combat plant health concerns. NASDA recognizes the importance of controlling these devastating pests and diseases and believes that the federal government should provide adequate funding to carry out existing programs and to perform research to find ways to control and eradicate these pests and diseases. Cooperative agreements with states and growers should be encouraged as a way of developing appropriate management strategies.

Some important plant pest and disease programs that should be maintained at least at current funding levels which are supported by NASDA are:

- Boll Weevil Eradication Program
- Citrus Canker Cooperative Eradication Agreements
- Plum Pox Cooperative Eradication Agreements
- Federal Scab Initiative
- Imported Fire Ant Program
- Golden Nematode Quarantine Efforts
- Grasshopper/Mormon Cricket Program
- Gypsy Moth “Slow the Spread” Strategy
- National Program Proposal on Late Blight
- Wood Insect Research Laboratory and Termiticide Efficacy Data
- Pest Detection and Management
- Tropical Soda Apple

There are two current practices in use today which reduce the use of pesticides and herbicides and are of particular note. They are Integrated Crop Management (ICM) and Integrated Pest Management (IPM). IPM should be implemented nationally to reduce the reliance on chemical pesticides and increase the use of non-chemical tools over the long term. It will probably take at least \$40 million to \$50 million to implement a national system that defines appropriate federal and state roles, for many of the highest priority invasive plant pests that threaten our agriculture and environment.

**Emergency Eradication and Official Control Funding** — Recently, the Office of Management and Budget (OMB) has required states in which outbreaks of invasive plant pests have been discovered to contribute a minimum of 15% of the eradication costs in order to receive emergency federal assistance. The federal government is responsible for foreign disease exclusion. Generally speaking, the states and the industries that operate within them are victims of the limits that make the exclusion element of the safeguarding system less than perfect. So, general application of the OMB cost-share requirement is neither appropriate nor fair. NASDA recommends that the 15% and other cost-share requirements be eliminated. Whether a federal-state cost-share is appropriate and what an appropriate cost-share ought to be should be determined on a case-by-case basis. These factors must be considered; the seriousness of the pest; the resource that is threatened; state’s ability to pay; the value of the benefits to the state in comparison with the benefits that would accrue to other states and the nation.

**Foreign Plant Pest and Disease Issues** — Foreign pest invasions should be recognized as a national problem, not just the problem of the state in which the pest originally entered the United States. Given the passage of the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT), several states have taken initiatives to enter into agreements that facilitate the export of agricultural crops and commodities. A primary concern of importing countries in the negotiation of these agreements is the risk of introducing exotic or threatening pests.

To help resolve this concern, a list of known pests associated with a crop or commodity is required by the importing country. Statewide pest survey programs that are supported by USDA-APHIS-PPQ through the Cooperative Agricultural Pest Survey (CAPS) can help address these phytosanitary concerns. By utilizing a National Agricultural Pest Information System (NAPIS) database for efficient pest management. Proper funding for the CAPS Program should continue so that pest data can be collected and the exporting of agricultural crops and commodities can be enhanced.

**Strategies for Controlling Pests** — NASDA supports classic biological control in dealing with established invasive species and other agricultural plant pests. Currently, there is no coordinated effort between the federal government and the state departments of agriculture to support and promote either classical or augmented biological control at local, regional and national levels. NASDA believes that a coordinated approach is essential so as to encourage continued importation of new natural enemies into the United States. NASDA urges Congress to appropriate funds to adequately support the research and development of biological control agents and establish this effort as a priority within USDA-APHIS to combat established, invasive species.

**Noxious Weeds** — Invasive, non-indigenous plants threaten to destroy America's biological heritage. It has been estimated that the annual economic loss caused by these invasions is more than \$20 billion. NASDA believes it is appropriate and vital that the federal government assert primary jurisdiction and assume a more dynamic leadership role in the interdiction and eradication of destructive invasive species. It is also critical that the federal agencies work in partnership with state and local governments and non-government organizations in developing policies and procedures. Building greater capacity of state and local governments for effectively dealing with destructive invasive species should be a paramount goal of this effort.

## **INFORMATION AND DATA COLLECTION**

Effective agricultural policy should be based on accurate and objective data that describe the structure and operation of agricultural enterprises and measure their economic health. In addition, proper data are needed both to administer programs and measure their performance. These measures should allow policy makers to determine whether targeted producers are being reached and if their economic viability is being maintained. Data requirements need to be developed in parallel with policy.

NASDA strongly supports efforts to build program capacity within the National Agricultural Statistics Service (NASS) and its cooperative partners to expand initiatives to enhance the collection of needed information and to improve the quality of data. These initiatives take many forms, from producer surveys to within field measurements to using geographic information systems and remote sensing. Web-based data collection and dissemination systems are additional examples of efforts to provide quality data with less burden on providers and users of data. NASDA supports NASS initiatives to develop electronic data reporting systems and supports the NASS goal to electronically collect the information for the 2007 Census of Agriculture.

NASDA supports the strong federal-state partnerships afforded by the system of cooperative agreements between individual state departments of agriculture and the NASS. These cooperative agreements enhance efficiency and effectiveness by providing for both state and federal data needs with local input on the types of statistics that are most important to the nation's agriculture. NASDA provides a nationwide staff of interviewers who are essential to collection of meaningful agricultural statistics. NASDA strongly endorses NASS efforts to support a highly trained, competitively paid corps of part-time enumerators who collect the data that form the foundation of the NASS census and survey programs.

The census of agriculture provides a complete picture of U.S. farms and ranches every five years. It is the most comprehensive source for county-level statistics that are especially critical in measuring changes over time at the local level. The census is the benchmark for U.S. agriculture and forms the basis for policy decisions related to agriculture and rural communities. It is essential that adequate resources be provided for conducting censuses of agriculture and for additional research to improve response, ease data reporting, and enhance data quality.

The Agricultural Risk Protection Act of 2000 encourages farm operators to diversify and add additional crops to their farm operation. NASDA emphasizes the need for more detailed county level information on livestock inventories and crop acreage, yield, and production in support of this Act. In particular, NASDA encourages expansion of cost of production data for specialty crops, which are collected as part of the annual NASS Agricultural Resources Management Survey (ARMS).

The Food Quality Protection Act emphasizes the need for reliable information about the volume and types of pesticides being applied to individual crops and what residues can be anticipated on these crops. USDA agricultural statistics and the Pesticide Data Program (PDP) play a valuable role in gathering pesticide use and dietary risk information. It is essential that funding for these programs continue. In order to ensure that current dietary habits are reflected accurately, a new food consumption survey should be conducted which will provide data to EPA as required by the FQPA. NASDA encourages Congress to appropriate the necessary funding to expand pesticide use data collection through statistically valid survey procedures for all pesticide uses supported through the pesticide registration and the FQPA process.

### **AGRICULTURE RESEARCH, EXTENSION, AND EDUCATION**

U.S. agriculture today faces greater global competition than ever before. This increases the need for sound, progressive agricultural research. In the past, public investments in agriculture research have paid large dividends to society, and the global, high-tech, environmentally-sensitive era we have now entered requires support of public research. The nation's land grant universities must remain a strategic resource for agriculture and the general public. They must be used wisely and fully to support the needs of an ever-expanding domestic and worldwide population.

Over the past several years there has been erosion in the public support for agricultural research. While private contributions to the research effort have been increasing, federal support has dropped by some 20 to 30 percent during the past five years. Diminishing public investment in agricultural research is a trend that must be stopped. Food and fiber are essential to all people, and we must ensure our productive capacity is secure.

Publicly funded research is needed to ensure society's goals are achieved. While private and public research is complementary, private research is more narrow and short-term. Public research can be more speculative, broader and longer-term. Public funding ensures that needs voiced by concerned citizens, regarding the quality of life they desire, are achieved. Concerns such as a safe and secure food and fiber system, a healthy and well-nourished population, harmony between agriculture and the environment, global competitiveness, and general economic development can be addressed better with public funding.

Our forefathers provided the framework needed to achieve public agricultural research goals. The land grant system provides the basic needs of extension, teaching and research. Program direction and funding is provided by long standing programs such as the Hatch, Smith-Lever, and other formula-based funding authorities. Now is the time to enhance these programs and help secure the future of our citizens and those of the world.

**Research Needs** — A crucial part of the foundation of the agricultural sector has long been the development and adoption of science-based practices derived from reliable data and information. As business people with their livelihoods at stake in a highly uncertain world, agricultural producers have looked to science for the best information possible to make decisions. The agricultural community expects no less from regulatory agencies with responsibility for natural resource and environmental programs. Policy makers and regulators have an obligation to meet the highest standards for the scientific credibility of the policies and decisions they make. Agencies must strive to make decisions based on sound science and reliable information in all matters that have the potential to affect the economic viability of an agricultural producer's operation and their livelihood. All major science policies and methodologies for assessing risk, costs and benefits, and the modeling of agricultural and environmental systems must be peer-reviewed before they are adopted. The timeliness and deadlines for peer review must be cooperatively implemented to facilitate on-ground conservation measures. A great deal of policy must be made on the basis of assessed risks. In addition, there are always going to be situations where considerable uncertainty exists on important matters. In these situations, it is even more critical that policy makers and regulatory agencies strive to obtain the most reliable information possible.

The American public is increasingly concerned about the safety and security of the food and fiber system. Consumers worry about environmental factors related to foodborne disease. In response, detection, surveillance and reporting of these diseases must be improved. The ultimate goal is the reduction and elimination of environmental risk factors that contribute to foodborne disease. It is essential that our food production, processing and distribution system remain secure.

Research to show how agriculturalists can meet changing trends in food choice and still meet world nutrition goals should be maintained. In order to reach this goal, we must identify the nutritional needs of a changing population. We must understand factors that influence food choices and develop food products desired by consumers and still meet their nutritional needs.

Today, much of the focus is on the relationship of agriculture to the environment. Research is necessary to develop rational, balanced approaches for the use and management of natural resources. The productive capacity of our natural resources must be improved and protected. We cannot let immediate needs outweigh the long-term protection of these critical resources.

In order for improvement to take place in rural communities, emphasis must be placed on developing local economies. The development of leadership is imperative in order to enhance rural entrepreneurial spirit and encourage small businesses that serve rural and agricultural areas.

A major underlying goal for agricultural research and education is the preparation of students to function in today's society. In addition, the levels of expectations for these students must equate to or exceed those of students in other endeavors. Strategies for education must be modernized and students must learn in a real-world environment. Faculties at land grant institutions must be prepared and equipped to teach students and prepare them for the future.

NASDA supports efforts to enhance and encourage public sector research that benefits agriculture and its related industries. Specifically NASDA supports legislation at the federal level that achieves the following goals and objectives:

- Establish agricultural research, extension and teaching as core components of the United States' long-term agricultural policy.
- Maintain and strengthen base program funding through the Hatch, Smith-Lever, and other formula-based funding authorities.

- Increase federal funding of competitive agricultural research and education grant programs.
- Enhance stakeholder-driven priority setting processes stressing grassroots input at the local and state levels.
- Ensure coordination and collaboration between the Agricultural Research Service and the Land Grant Universities.
- Clarify the Cooperative Extension Service as the primary outreach and education agency within the U.S. Department of Agriculture.
- Increase the overall investment in agricultural research, extension and teaching.

Additional resources are needed to adequately fund relevant, high quality research and related outreach programs in food and fiber production systems, natural resources and conservation, expanding agricultural markets, rural economic development, human nutrition and food safety, and animal nutrition and feed safety. NASDA recommends a doubling of federal funding of food, nutrition, agricultural, natural resource, and fiber research, extension and education programs during the next five years. This net additional funding should be on a continuing basis that will complement, not compete with, the existing portfolio of federal research. Funding would support a balanced portfolio of both outside and intramural basic and applied research and education on a competitive grant and programmatic basis. NASDA further supports research that addresses the interrelationship between food, health and medicine.

NASDA supports the formation of a National Coalition of Food & Agricultural Research (C-FAR) that focuses on research goals, priorities and outcomes; not research administration, design or procedures. A national C-FAR will foster public confidence in food, agricultural, nutritional and natural resource research through public participation in planning and evaluating the process and impact of research activities.

## **INFRASTRUCTURE**

The twentieth century was “America’s century,” and the success of our agricultural sector was critical to the nation’s preeminence. Infrastructure investments made in the nineteenth and twentieth century led our country into prosperity. Railroads, highways, electricity, communications and education — linking rural areas with urban, and the world, both physically and socially, were costly but necessary investments that enabled the people of the United States to become the best fed at the lowest price of any people in history. That infrastructure is crumbling however as we begin a new century. Nearly half of our agricultural production is exported and a large factor in our competitiveness in the world marketplace has been the efficiency of our transportation system. Without a substantial investment in our infrastructure, we cannot hold our preeminent position in food production.

**River Transportation** — Improvements in the U.S. waterway system are urgently needed. These aging structures can no longer accommodate the traffic volume or the physical size of today’s carriers. The dependency that our farmers and ranchers have on the waterway system is enormous. USDA data show barges typically account for about 50 percent of the export movement of grains from the U.S. Soybeans utilize barge transportation for about 68 percent of exports, wheat about 58 percent, and corn about 65 percent. The reciprocal dependency between agriculture products and grain barges is evident with waterborne transportation relying on field crops for 80 percent of its traffic and agricultural inputs for 16 percent.

Typical tows on the Upper Mississippi River move about 22,500 tons as a single unit, equivalent to about 225 rail cars or 870 tractor-trailer units. On the Columbia-Snake system in the Pacific Northwest, the topography is steeper and there is a greater need for dams

and locks. Nonetheless, a single tow there of three barges moves about 10,000 tons equivalent to 100 rail cars or nearly 400 trucks. River transport of bulk and cargo containers of agricultural products is critical to many areas of the country. In addition to the crucial role that dams and locks play in the transportation of agricultural commodities, they are also critical in the nation's energy mix as a source of clean energy. For example, in the Pacific Northwest, the Snake River and Columbia River dams generate 40% of the hydropower in the United States.

Many rural and urban communities rely on the river systems, ports, reservoirs, irrigation, and other structural components of dams. In recent years, significant investments have been made in these systems to accommodate fish passage and other wildlife issues. Indeed, most salmon recovery programs in the Northwest are financed by the Bonneville Power Administration, which spends \$435 million a year on the effort. Ratepayers – including farmers and ranchers - are financing these efforts. On-going efforts will continue to address conservation and wildlife needs; but, the social fabric and economic reality of rural and urban areas rely on riverway infrastructures.

Much of the nation's imported and exported agricultural products are transported through port facilities linked to waterways and the nation's lakes and rivers. If we are unable to move agricultural products in an efficient manner, the United States will become less and less competitive in export markets and we will lose domestic markets as well. Specifically, one of the U.S.' biggest competitors, Argentina, has recently invested more than \$650 million in a dredging project. The effect of this project has been a lowering of ocean freight rates paid by Argentine grain exporters. Furthermore, more dredging is planned. This, paired with government economic reforms encouraging grain production, will find more of Argentina's grain in the world market—competing with U.S. product. China is also rapidly improving its waterway system.

NASDA supports adequate funding and continued investment in these facilities for our nation's trade and food security interests. NASDA supports efforts to fund lock and dam maintenance and improvement programs necessary for the continued operation for safe and efficient commercial navigation on U.S. rivers and lakes.

***Rail Transportation*** — Farmers and ranchers face unique challenges in the global market, and require a dependable and affordable means of transportation for their product. Weather, market conditions, and mergers have impacted the rail transportation industry causing grain car shortages, especially in the upper Midwestern states. Farmers and ranchers already operate on exceedingly low profit margins—this paired with dramatic fluctuations in world economies places them in a financially precarious environment that Congress has taken a special interest in addressing. Unreliable transportation or non-competitive shipping rates simply accelerates the downfall of an already struggling farm economy. Many of these farmers and ranchers are rail customers who have an irrevocable tie to the railroads because, in many cases, there are no alternative modes of transportation which make logistical or economic sense. Agricultural shippers in some parts of the United States are paying the highest rail freight rates for, arguably, the most sporadic and unreliable service. These producers need a clearly defined means for securing reliable service at a reasonable rate.

A review of the past 20 years of regulatory precedent demonstrates that rail regulators, when faced with the appearance of conflict between the policies favoring competition and policies focusing on ensuring the revenue adequacy of the railroad industry, invariably gave the rail industry's bottom line preference. If Congress truly intended for competition to be the regulator of choice — among rail carriers as well as with other modes — the priorities of this policy need to be clarified legislatively, and competition must be provided for.

To address rail transportation inadequacies, NASDA encourages USDA to consider moving grain under loan into the market at various intervals and over a longer period of time so as to balance shipping needs through out the year. We also believe that monthly rail shipper survey information should be published, and that the Surface Transportation Board's National Grain Car Council should implement a mechanism that permits shippers to seek nonperformance arbitration. Congress should clarify the rail transportation policy of the U.S. by requiring the Surface Transportation Board to give greater weight to the need for increased competition between and among rail carriers. Congress should require rail carriers, upon request, to quote a rate between any two points on the system where traffic originates, terminates or may reasonably be interchanged without regard to whether the rate is for only part of the total movement. Also, upon request, small, captive agricultural shippers should be provided with a simple benchmark test for rate and service cases. Finally, NASDA believes the Secretary of Agriculture should be provided the discretionary authority to extend Commodity Credit Corporation (CCC) loans for up to six months for reasons including economic or other emergency situations. We believe this increased flexibility in loan maturity will encourage more orderly shipments of grain.

**Broadband and Wireless Internet Access** — Development of economically viable access to internet connections for rural communities is important to ensure that farmers and ranchers have the proper tools to succeed in the expanding global market place—which is increasingly becoming more competitive. Agriculture would benefit from inexpensive and easily accessible internet connections by facilitating and strengthening use of extension research and technology programs, resident education, domestic and international marketing, and access to federal information and documents online.

Today, most farm internet users, especially those located in rural areas, are extremely limited in the type of information they can send and receive. Their access is limited to 'narrowband' communications media, typically conventional phone lines at a maximum speed of 56,000 bits per second. By contrast, many higher income urban and suburban areas and urban business users have access to the internet at competitive prices from a variety of carriers at current generation broadband speeds in excess of 1,500,000 bits per second, providing them with a wide array of audio and data applications.

NASDA supports action by Congress to increase the availability and choices of broadband and wireless internet access such as narrowing the disparity in the level of broadband and wireless access to the internet through tax credits, government pilot projects, and increased funding for upgrading rural telecommunications. Specifically, there already exists a computing investment credit in the Internal Revenue Code of 1986, which could be expanded to include a broadband credit. Also, we encourage agencies such as the National Science Foundation to research means of enhancing or facilitating the availability of broadband and wireless telecommunications services in rural areas and other remote areas.

**Biotechnology** — Advances in molecular biology resulting in what is known as recombinant DNA (rDNA) technology or genetic "engineering" are the latest in plant and animal husbandry. This technology, which applies the science of biology, offers the opportunity to move more quickly, precisely selected, well-characterized genetic material between organisms than could be done through the traditional techniques. The term "biotechnology" refers to the latest, most modern husbandry technique to modify plants, animals, or microorganisms by introducing into their genetic code genes for specific desired traits, often from different species. The tools of biotechnology, such as polyploidization, embryo rescue, mutagenesis and cell fusion don't occur naturally, but yet have been employed safely for decades. The potential benefits to the world from future discoveries in biotechnology are almost too vast to comprehend. The products derived from rDNA technology can significantly enhance our quality of life from the medicines we use, to the food we eat, to the environment in which we live.

Adoption of rDNA technology by the farm sector is an accomplished fact, particularly so in the United States. In 2000, 13 nations, including the United States, allowed biotechnology-enhanced crops to be grown commercially. Of those, five are in the developing world: Argentina, China, Mexico, South Africa and Uruguay. In fact, China and Argentina now rank among the top four growers, alongside the United States and Canada, in number of acres planted. Between 1999 and 2000, the amount of genetically-enhanced crops planted world wide (100 million acres) increased by 10.75 million acres. While industrial nations — mainly the United States and Canada — still produce three-quarters of the world’s biotech crops, 84 percent of the 10.75 million-acre increase occurred in developing countries – mainly Argentina, China, and South Africa. According to the United States General Accounting Office, in 2000, biotech varieties accounted for about 25 percent of the corn, 54 percent of the soybeans, and 61 percent of the cotton planted in the United States. Clearly, agricultural biotechnology is here to stay.

However, the issues surrounding agricultural biotechnology are complex and varied. The USDA’s Economic Research Service summed them up this way:

“The complexity of issues stems from the creation and management of the science, the ownership of intellectual property, the economic nature of the industry undertaking the research, the interaction between public and private research and the marketing of the products. Adding to the complexity are concerns about the implications of biotechnology for new agricultural products, markets and contractual arrangements between producers, processors, and marketers. The acceptance of the technology depends critically on the perceptions and attitudes of consumers, both domestic and foreign. More to the point, the degree of acceptance among our trading partners can significantly affect international trade and may create the need to segregate and identify genetically engineered products.”

The Coordinated Framework for Regulation of Biotechnology, prepared by the Office of Science and Technology Policy (OSTP) and published June 1986, is the comprehensive U.S. policy for ensuring the safety of biotechnology research and resulting products. It explains the coordination among federal agencies and the basis for regulation. Under the Framework, the United States applies existing food safety and environmental protection laws and regulations to biotech products and makes decisions on approvals based on characteristics of products rather than whether they are derived from biotechnology. The “products, not the process” scheme is objective, transparent, and scientifically sound.

It is appropriate to periodically review federal regulatory oversight in order to ensure comprehensive, efficient regulatory review of new genetically modified crops and foods. Governments, biotech companies, producers, processors, and the scientific community must work to maintain a responsive regulatory system in which the public has confidence. Oversight of agricultural biotechnology should continue to be a careful, objective, science-based evaluation of technologies and products through continuous testing, safety assessments for reasonably foreseeable risks, continued implementation of appropriate biosafety and environmental controls, frequent review of safety evaluation procedures, and economic assessments. The basis for regulation should continue to be the characteristics of the organism, its intended use, and the environment into which it is to be introduced — not the method used to produce it.

It is critical that federal and state agencies be informed, knowledgeable, and work as partners in all phases of the ongoing biotechnology regulatory policy process. State agencies should be active partners, sharing oversight responsibilities with federal agencies, while carrying out their responsibilities to the state’s agricultural community, the environmental community and the consuming public at large. As new advances are made in plant and animal production, it is critical to ensure that private and public

issues are adequately reviewed. Providers of seeds and biotech-enhanced ingredients should provide adequate information in a timely fashion to ensure that new products do not create new or unexpected concerns.

Government has a vital role in the commercialization of biotechnology products for the future. Regulation and oversight should include:

- Periodic review of the federal biotech regulatory system in an effort to maintain a responsive system and public confidence.
- Evaluation of the technologies and products through science-based continuous testing, safety assessments for reasonably foreseeable risks, continued implementation of appropriate biosafety and environmental controls, frequent review of safety evaluation procedures, and economic and benefits assessments.
- Oversight based on the characteristics of the organism, its intended use, and the environment into which it is to be introduced -- not by the method used to produce it.
- Support for state agencies as active partnerships, sharing oversight responsibilities with federal agencies, on biotech issues.
- Establishment of a regulatory system that can enforce the tolerance levels and established certification/channeling process, testing protocols, and equipment testing.
- Enforcement of and support for humane animal care in research and prosecute acts of terrorism on research and research facilities of any kind.
- Monitor strategic actions, both vertical and horizontal, of biotechnology firms so that new practices and products are competitive and do not unfairly burden producers or restrict fair and free market activities.
- Protect agricultural producers from liability for damages resulting from biotech-enhanced product use if recommended practices and procedures have been followed.
- Provide clear identification and aggressive communication of export approval status of hybrid-specific seed and the approval status of all seed varieties.
- Provide significant investment in publicly-funded biotech research to establish independent verification of privately-owned information.

## **AGRICULTURE FLEXIBILITY PARTNERSHIP ACT– “AG FLEX”**

Ag-Flex is a program that allows the Secretaries of Agriculture, Interior, and Commerce to delegate to state departments of agriculture (SDAs), with strong accountability safeguards, the administering of federal programs in the states. It is at the option of state governors to participate in this partnership. In exchange, states are required to demonstrate enhanced accountability. It is a voluntary program with the intent to provide for increased flexibility, better state coordination of resources and innovative problem-solving.

Under Ag-Flex, the SDAs, rather than the U. S. Department of Agriculture and Interior and Commerce, have the delegated authority to administer and implement selected federal programs. While Ag-Flex authority is broad, certain fundamental requirements may not be waived, including those pertaining to health, safety and civil rights. Authority would be granted for a minimum of 5 years.

Ag-Flex, by delegating to SDAs program implementation, would allocate 95% of the current federal budget spent in that state to state departments of agriculture to assist in the administration of the federal program identified. The delivery method would be via block grants. The remaining 5% of the current federal budget balance to be used for an in-state office by USDA, USDI, or USDOC to help coordinate and assist SDAs in the process.

The Secretaries of Agriculture, Interior and Commerce would be authorized to grant waivers to states to remove or reduce certain federal statutory or regulatory requirements in exchange for states waiving comparable state regulations. The waiver of identified federal programs may accompany legislation to allow the flexibility of administering the programs on the state level.

## APPENDIX A

### NASDA's 21<sup>st</sup> Century Farm Policy Initiative: Producer Safety Net

Examples of How Counter Cyclical and Fixed Payments Would Be Determined

#### Guiding Principles

- Safety Net is equal to 90% of total cost of production, of which
  - 10% will be a fixed payment (base acres and yields)
  - 90% will be a counter cyclical variable (actual production)
- Based on national average economic cost of production (1998 – 1999)
- Fixed payment based on updated base acres and yields (5 year average 1996 – 2000)
- Complements cost of production insurance

Commodity	National Average Total Cost of Production (1998 – 1999)	Safety Net 90% Cost of Production	Safety Net 90% Cost of Production	
			Fixed (Base Acres and Yield) 10%	Counter cyclical Variable (Actual production) 90%
Barley/bu	\$3.52	\$3.17	\$0.32	\$2.85
Corn/bu	\$2.66	\$2.39	\$0.24	\$2.15
Cotton/lb	\$0.90	\$0.81	\$0.08	\$0.73
Oats/bu	\$2.36	\$2.12	\$0.21	\$1.91
Rice/cwt	\$11.74	\$10.57	\$1.06	\$9.51
Sorghum/bu	\$3.61	\$3.25	\$0.33	\$2.92
Soybeans/bu	\$5.99	\$5.39	\$0.54	\$4.85
Wheat/bu	\$4.22	\$3.80	\$0.38	\$3.42

Source – USDA-ERS

**Scenario #1**

**Base corn farmer who now plants sorghum**

No Cost of Production Insurance

Commodity	Acres	Yield	Market Price (Actual)	Loan Rate (Actual)
Corn (base)	600 (base)	130 bu (base)	NA	NA
Sorghum (actual)	450 (actual)	85 bu (actual)	\$2.00	\$1.81

1. Determine fixed and variable payments for base and actual crops.

Commodity Actual and Base	National Average Total Cost of Production (1998 – 1999)	Safety Net 90% Cost of Production	Safety Net 90% Cost of Production	
			Fixed 10%	Counter cyclical (CC) Variable 90%
Corn/bu	\$2.66	\$2.39	\$0.24	NA
Sorghum/bu	\$3.61	\$3.25	NA	\$2.92

(national average total cost of production)(90%) = safety net

(safety net)(10%) = fixed

(safety net)(90%) = variable

2. Calculate Counter cyclical payment for actual crop (sorghum)

Actual Commodity	CC Variable 90%	Actual Market Price	CC Variable Payment Rate	Actual Yield	Actual Acres	CC Payment
Sorghum	\$2.92	2.00	\$.92	85 bu	450	\$35,190

(CC variable) – (market price) = CC variable payment rate

(CC variable rate)(actual yield)(actual acres) = CC payment

3. Calculate fixed payment for base commodity (corn)

Base Commodity	Fixed 10%	Actual Market Price	Base Yield	Base Acres	Fixed Payment
Corn	\$.24	NA	130 bu	600	\$18,720

(fixed rate)(base yield)(base acres) = fixed payment

4. Total payments

Fixed Payment	\$18,720
Counter cyclical Payment	\$35,190
<b>TOTAL PAYMENT</b>	<b>53,910</b>

(fixed payment) + (counter cyclical payment) = total payments

**Scenario # 2**

**Base wheat farmer still planting wheat**

No cost of production insurance

Commodity	Acres	Yield	Market Price (Actual)	Loan Rate (Actual)
Wheat (base)	1200 (base)	50 bu (base)	NA	NA
Wheat (actual)	1000 (actual)	45 bu (actual)	\$2.70	\$2.58

1. Determine fixed and variable payments for base and actual crops.

<b>Commodity</b> Actual and Base	National Average Total Cost of Production (1998 – 1999)	<b>Safety Net</b> 90% Cost of Production	<b>Safety Net</b> 90% Cost of Production	
			Fixed 10%	Counter cyclical (CC) Variable 90%
Wheat/bu	\$4.22	\$3.80	\$0.38	\$3.42

2. Calculate counter cyclical (CC) payment for actual crop

Actual Commodity	CC Variable 90%	Actual Market Price	CC Variable Payment Rate	Actual Yield	Actual Acres	CC Payment
Wheat	\$3.42	2.70	\$.72	45 bu	1000	\$32,400

(CC variable) – (market price) = CC variable payment rate

(CC variable rate)(actual yield)(actual acres) = CC payment

3. Calculate fixed payment for base crop

Base Commodity	Fixed 10%	Actual Market Price	Base Yield	Base Acres	Fixed Payment
Wheat	\$.38	NA	50 bu	1200	\$22,800

(fixed rate)(base yield)(base acres) = fixed payment

4. Total payments

Fixed Payment	\$22,800
Counter cyclical Payment	\$32,400
<b>TOTAL PAYMENT</b>	<b>\$55,200</b>

(fixed payment) + (counter cyclical payment) = total payments

**Scenario # 3 (Builds on #2)**

**Base wheat farmer still planting wheat**

Buys cost of production insurance at 90%  
(new variable needed - cost of production per acre)

Commodity	Acres	Yield	Market Price (Actual)	Loan Rate (Actual)	Cost of Production/ acre
Wheat (base)	1200 (base)	50 bu (base)	NA	NA	NA
Wheat (actual)	1000 (actual)	45 bu (actual)	\$2.70	\$2.58	\$182

4. Determine total income from sale of commodity and government payments

Commodity	Acres	Yield	Market Price (Actual)	Sale of Commodity	Government Payment	Total Income
Wheat (actual)	1000 (actual)	45 bu (actual)	\$2.70	\$121,500	\$55,200	\$176,700

(acres)(yield)(market price) = sale of commodity

(sale of commodity) + (government payment) = total income

5. Calculate total expense

Cost of Production/Acre	Acres (actual)	Total Expenses	Insurance Coverage Level (90%)	Total Income	Indemnity
\$182	1000	\$182,000	\$163,800	\$176,700	none

(cost of production/acre)(acres) = total expenses

(total income) – (insurance coverage level) = indemnity

6. In this example, the farm receives no indemnity because his total income exceeded his insurance level coverage, but he still took a \$5,300 loss because his total expenses were more than his total income.

**Scenario # 4 (Builds on #2)**

**Base wheat farmer still planting wheat**

Buys cost of production insurance at 90%

Expenses increase

Commodity	Acres	Yield	Market Price (Actual)	Loan Rate (Actual)	Cost of Production/ acre
Wheat (base)	1200 (base)	50 bu (base)	NA	NA	NA
Wheat (actual)	1000 (actual)	45 bu (actual)	\$2.70	\$2.58	\$200

4. Determine total income from sale of commodity and government payments

Commodity	Acres	Yield	Market Price (Actual)	Sale of Commodity	Government Payment	Total Income
Wheat (actual)	1000 (actual)	45 bu (actual)	\$2.70	\$121,500	\$55,200	\$176,700

$(\text{acres})(\text{yield})(\text{market price}) = \text{sale of commodity}$

$(\text{sale of commodity}) + (\text{government payment}) = \text{total income}$

5. Calculate total expense

Cost of Production/Acre	Acres (actual)	Total Expenses	Insurance Coverage Level (90%)	Total Income	Indemnity
\$200	1000	\$200,000	\$180,000	\$176,700	\$3,300

$(\text{cost of production/acre})(\text{acres}) = \text{total expenses}$

$(\text{total income}) - (\text{insurance coverage level}) = \text{indemnity}$

6. In this example, the farmer receives an indemnity of \$3,300, but he still sustained a loss of \$20,000 (10%).

**Scenario # 5 (Builds on #2)**

**Base wheat farmer still planting wheat**

Buys cost of production insurance at 90%

Expenses decrease

Commodity	Acres	Yield	Market Price (Actual)	Loan Rate (Actual)	Cost of Production/acre
Wheat (base)	1200 (base)	50 bu (base)	NA	NA	NA
Wheat (actual)	1000 (actual)	45 bu (actual)	\$2.70	\$2.58	\$175

4. Determine total income from sale of commodity and government payments

Commodity	Acres	Yield	Market Price (Actual)	Sale of Commodity	Government Payment	Total Income
Wheat (actual)	1000 (actual)	45 bu (actual)	\$2.70	\$121,500	\$55,200	\$176,700

$(\text{acres})(\text{yield})(\text{market price}) = \text{sale of commodity}$

$(\text{sale of commodity}) + (\text{government payment}) = \text{total income}$

5. Calculate total expense

Cost of Production/Acre	Acres (actual)	Total Expenses	Insurance Coverage Level (90%)	Total Income	Indemnity
\$175	1000	\$175,000	\$157,500	\$176,700	none

$(\text{cost of production/acre})(\text{acres}) = \text{total expenses}$

$(\text{total income}) - (\text{insurance coverage level}) = \text{indemnity}$

6. In this example, the farmer clears \$1,700 by keeping his cost of production down.

**Scenario # 6**

**Base wheat farmer still planting wheat**

Experiences a yield loss from 45 bu to 20 bu

Buys cost production insurance at 90%

Commodity	Acres	Yield	Market Price (Actual)	Loan Rate (Actual)	Cost of Production/ acre
Wheat (base)	1200 (base)	50 bu (base)	NA	NA	NA
Wheat (actual)	1000 (actual)	20 bu (actual)	\$2.70	\$2.58	\$182

1. Determine fixed and variable payments for base and actual crops

<b>Commodity</b> Actual and Base	National Average Total Cost of Production (1998 – 1999)	<b>Safety Net</b> 90% Cost of Production	<b>Safety Net</b> 90% Cost of Production	
			Fixed 10%	Counter cyclical (CC) Variable 90%
Wheat/bu	\$4.22	\$3.80	\$0.38	\$3.42

2. Calculate counter cyclical (CC) payment for actual crop

Actual Commodity	CC Variable 90%	Actual Market Price	CC Variable Payment Rate	Actual Yield	Actual Acres	CC Payment
Wheat	\$3.42	2.70	\$.72	20 bu	1000	\$14,400

$(\text{CC variable}) - (\text{market price}) = \text{CC variable payment rate}$

$(\text{CC variable rate})(\text{actual yield})(\text{actual acres}) = \text{CC payment}$

3. Calculate fixed payment for base crop

Base Commodity	Fixed 10%	Actual Market Price	Base Yield	Base Acres	Fixed Payment
Wheat	\$.38	NA	50 bu	1200	\$22,800

$(\text{fixed rate})(\text{base yield})(\text{base acres}) = \text{fixed payment}$

4. Total payments

Fixed Payment	\$22,800
Counter cyclical Payment	\$14,400
<b>TOTAL PAYMENT</b>	<b>\$37,200</b>

$(\text{fixed payment}) + (\text{counter cyclical payment}) = \text{total payments}$

5. Determine total income from sale of commodity and government payments

Commodity	Acres	Yield	Market Price (Actual)	Sale of Commodity	Government Payment	Total Income
Wheat (actual)	1000 (actual)	20 bu (actual)	\$2.70	\$54,000	\$37,200	\$91,200

$(\text{acres})(\text{yield})(\text{market price}) = \text{sale of commodity}$

$(\text{sale of commodity}) + (\text{government payment}) = \text{total income}$

6. Calculate total expense

Cost of Production/Acre	Acres (actual)	Total Expenses	Insurance Coverage Level (90%)	Total Income	Indemnity
\$182	1000	\$182,000	\$163,800	\$91,200	\$72,600

$(\text{cost of production/acre})(\text{acres}) = \text{total expenses}$

$(\text{total income}) - (\text{insurance coverage level}) = \text{indemnity}$

7. In this example, the farmers' cost of production insurance combined with the fixed and counter cyclical payment provide a safety net of 90% of his cost of production. His loss is \$18,200. If he had not purchased cost of production insurance, his loss would have been \$90,800. With government payments combined with crop insurance, the producer is guaranteed ninety percent of his cost of production under most scenarios.

APPENDIX B – NASDA's 21<sup>st</sup> Century Farm Policy Initiative: Agricultural Stewardship Program - State Allocations  
Allocation Formula Using Gross Receipts from Agricultural Production and Total Land Area in Production

State	Total State Receipts (\$1,000,000)	Percent of Total US Receipts	Total Land in Production (1,000 acres)	Percent of Total US Acres	Weighted Percentage (Rcpts/Acres)  50/50 Factor	State Allocations	
						(\$ in millions)	
						Base Alloc	Total Alloc*
Alabama	3,438.3	1.822%	9,000	0.959%	1.390%	2.0	14.5
Alaska	47.5	0.025%	920	0.098%	0.062%	2.0	2.6
Arizona	2,178.0	1.154%	26,700	2.844%	1.999%	2.0	20.0
Arkansas	5,259.4	2.787%	14,600	1.555%	2.171%	2.0	21.5
California	24,800.7	13.143%	27,800	2.961%	8.052%	2.0	74.5
Colorado	4,353.6	2.307%	31,600	3.366%	2.837%	2.0	27.5
Connecticut	482.5	0.256%	360	0.038%	0.147%	2.0	3.3
Delaware	718.3	0.381%	580	0.062%	0.221%	2.0	4.0
Florida	7,065.6	3.744%	10,300	1.097%	2.421%	2.0	23.8
Georgia	5,241.0	2.777%	11,100	1.182%	1.980%	2.0	19.8
Hawaii	533.3	0.283%	1,440	0.153%	0.218%	2.0	4.0
Idaho	3,347.3	1.774%	11,900	1.268%	1.521%	2.0	15.7
Illinois	6,757.5	3.581%	27,700	2.951%	3.266%	2.0	31.4
Indiana	4,373.1	2.317%	15,500	1.651%	1.984%	2.0	19.9
Iowa	9,716.5	5.149%	32,800	3.494%	4.322%	2.0	40.9
Kansas	7,616.0	4.036%	47,500	5.060%	4.548%	2.0	42.9
Kentucky	3,456.1	1.832%	13,600	1.449%	1.640%	2.0	16.8
Louisiana	1,847.6	0.979%	8,100	0.863%	0.921%	2.0	10.3
Maine	515.2	0.273%	1,270	0.135%	0.204%	2.0	3.8
Maryland	1,481.0	0.785%	2,100	0.224%	0.504%	2.0	6.5
Massachusetts	396.1	0.210%	570	0.061%	0.135%	2.0	3.2
Michigan	3,470.1	1.839%	10,400	1.108%	1.473%	2.0	15.3
Minnesota	7,060.8	3.742%	28,600	3.047%	3.394%	2.0	32.5
Mississippi	3,173.8	1.682%	11,100	1.182%	1.432%	2.0	14.9
Missouri	4,255.9	2.255%	30,000	3.196%	2.726%	2.0	26.5
Montana	1,716.2	0.910%	56,700	6.040%	3.475%	2.0	33.3
Nebraska	8,555.0	4.534%	46,400	4.943%	4.738%	2.0	44.6
Nevada	334.3	0.177%	6,800	0.724%	0.451%	2.0	6.1
New Hampshire	153.1	0.081%	420	0.045%	0.063%	2.0	2.6
New Jersey	740.3	0.392%	830	0.088%	0.240%	2.0	27.8
New Mexico	1,953.4	1.035%	44,000	4.687%	2.861%	2.0	13.1
New York	3,097.4	1.641%	7,700	0.820%	1.231%	2.0	4.2
North Carolina	6,687.9	3.544%	9,200	0.980%	2.262%	2.0	22.4
North Dakota	2,758.9	1.462%	39,400	4.197%	2.830%	2.0	27.5
Ohio	4,428.8	2.347%	14,900	1.587%	1.967%	2.0	19.7
Oklahoma	3,990.5	2.115%	34,000	3.622%	2.868%	2.0	27.8
Oregon	3,052.5	1.618%	17,200	1.832%	1.725%	2.0	17.5
Pennsylvania	4,070.3	2.157%	7,700	0.820%	1.489%	2.0	15.4
Rhode Island	47.6	0.025%	60	0.006%	0.016%	2.0	2.1
South Carolina	1,406.1	0.745%	470	0.050%	0.398%	2.0	31.5
South Dakota	3,539.1	1.875%	44,000	4.687%	3.281%	2.0	5.6
Tennessee	1,974.4	1.046%	11,700	1.246%	1.146%	2.0	12.3
Texas	13,051.6	6.917%	130,000	13.848%	10.382%	2.0	95.4
Utah	966.6	0.512%	11,600	1.236%	0.874%	2.0	9.9
Vermont	540.7	0.287%	1,340	0.143%	0.215%	2.0	3.9
Virginia	2,283.0	1.210%	8,700	0.927%	1.068%	2.0	11.6
Washington	4,933.3	2.614%	15,700	1.672%	2.143%	2.0	21.3
West Virginia	386.6	0.205%	3,600	0.383%	0.294%	2.0	4.6
Wisconsin	5,596.1	2.966%	16,200	1.726%	2.346%	2.0	23.1
Wyoming	851.7	0.451%	34,600	3.686%	2.069%	2.0	20.6
<b>TOTAL</b>	<b>188,701</b>	<b>100.000%</b>	<b>938,760</b>	<b>100.000%</b>	<b>100.000%</b>	<b>100.0</b>	<b>1000.0</b>

\*Total Includes 0.2% Base Allocation



