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## POLICY AMENDMENT FORM

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3 Amendment to\_ Section 12 Financial Security for Agriculture  
4 (Policy Title)

5  
6 Section Number /Title to Be Amended: all sections under consideration

**RD-3**

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9 Subject of Amendment: Financial Security for Agriculture

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12 Submitted By\_ Commissioner Roger Johnson  
13 (Name)

North Dakota  
(State)

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15  
16 Amendment Text (Please write legibly):

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19 See attachment – Section 12 Financial Security for Agriculture

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22 See Policy Revisions Key

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27 Signature submitted electronically

Date 8/31/2007

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30 Adopted \_\_\_\_\_

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32 Adopted w/ Amend. \_\_\_\_\_

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34 Not Adopted \_\_\_\_\_

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# 1 Financial Security for Agriculture

## 2 12.1 Introduction

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

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

18 The 1996 farm bill made sweeping changes to U.S. farm policy; ~~M~~ Many changes such  
19 as planting flexibility were good and as such have achieved their desired impact.  
20 However, broad economic trends from the Asian economic collapse to the dot-com  
21 stock market run-up and subsequent implosion, to the energy price spike of 2000 —  
22 ~~have~~ all had effects on farm finances and commodity prices that were certainly outside  
23 the vision of the policy makers who crafted the 1996 farm bill. ~~It is the task of policy~~  
24 ~~makers in crafting the farm bill, therefore, to devise a federal farm policy that provides~~  
25 ~~an adequate “safety net” for producers. According to the Commission on 21st Century~~  
26 ~~Production Agriculture, “midway through 2000” saw crop prices were “at or near historic~~  
27 ~~lows.”~~

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

36 The economic realities and shortcomings of the 1996 farm bill led to major farm policy  
37 reforms in the 2002 farm bill. An economic safety net was designed, including  
38 marketing loans and a countercyclical program, to help offset losses due to low  
39 commodity prices. These price protection components performed as intended;  
40 providing economic assistance when most needed and saving taxpayer support in times  
41 of stronger commodity prices.

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

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

8 ~~Financial Stability: Producers are in need of a stable and predictable financial support~~  
9 ~~mechanism that will allow them to receive a reasonable income, even when prices are~~  
10 ~~inadequate to do so. This financial stability is important to consumers and taxpayers, as~~  
11 ~~well as to producers, and is best achieved through a program that provides assistance~~  
12 ~~which is counter cyclical to the market. including access to adequate credit,~~  
13 ~~appropriate tax incentives, and risk management opportunities.~~

14 ~~Planting Flexibility: Federal farm policy should maintain planting flexibility. One of the~~  
15 ~~features of the 1996 farm bill which is of greatest benefit to producers is the planting~~  
16 ~~flexibility. The farm bill should retain that provision.~~

17 ~~Loss Protection Safety Net: So many factors are out of the control of even the best~~  
18 ~~farm managers. The business of agriculture is high risk. Thus, the farm bill policy~~  
19 ~~should provide a way for producers of all commodities to limit their losses to no more~~  
20 ~~than 10 percent of their cost of production through a cost of production insurance~~  
21 ~~program. with reasonable protections against both financial and production losses~~  
22 ~~beyond their control.~~

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

27 ~~U.S. agriculture continues to experience structural changes at a breathtaking pace.~~  
28 ~~Agri-business consolidation, globalization, renewable energy, and the growth of foreign~~  
29 ~~trade opportunities and competition have fundamentally changed the nature of farming~~  
30 ~~and farm economics.~~

31 ~~As U.S. agriculture enters In the 21<sup>st</sup> century, however, the traditional approach to farm~~  
32 ~~policy will not be enough to ensure adequate opportunities for success. The extent of~~  
33 ~~global competition for U.S. producers has expanded into capital, tax burdens, labor~~  
34 ~~supplies, environmental and regulatory constraints, food safety concerns, land costs,~~  
35 ~~and the relative degree of access to foreign markets. In one sense, all of these factors~~  
36 ~~can be viewed merely as different forms of risk to be managed.~~

37 ~~Providing a sound, and secure financial system is important for agricultural producers~~  
38 ~~who face times of uncertainty. Farmers need tools in which to ensure financial security~~

1 and to withstand uncertain times. Educating farmers about risk management will be a  
2 growing area of importance.

### 3 **12.2 Agricultural Credit**

4 The availability of competitively priced credit is critical to the success of the American  
5 agriculture and food industries. ~~As consolidations, new financial products, and~~  
6 ~~innovative credit delivery approaches reshape systems continue to reshape~~ the financial  
7 services industry, ~~farmers, and agribusinesses must continue to have reliable, efficient~~  
8 ~~sources of credit. Cooperation must exist among agricultural lenders to ensure that the~~  
9 ~~needs of agriculture are met as we approach in the 21st Century. Proposals that would~~  
10 ~~create a competitive imbalance distort competition in rural lending are not in the best~~  
11 ~~interest of the farm businesses, agricultural cooperatives, or rural communities.~~

12 ***Farm Credit System*** – As the leading lenders to the agriculture sector, the Farm Credit  
13 System and commercial banks compete aggressively to provide the capital necessary  
14 to fuel agriculture’s production, processing, and marketing costs. This competition  
15 results in lowering borrowing costs and providing better service for farmers, ranchers,  
16 cooperatives, and ~~some~~ eligible agribusinesses. In addition, Farm Credit’s presence in  
17 the market ensures the availability of credit through the inevitable good and bad cycles  
18 of agriculture.

19 ~~Cooperation must exist among agricultural lenders to ensure that the needs of~~  
20 ~~agriculture are met as we approach the 21st Century. Proposals that would create a~~  
21 ~~competitive imbalance in rural lending are not in the best interest of the farm~~  
22 ~~businesses, agricultural cooperatives, or rural communities.~~

23 ~~We believe efforts to modernize the Farm Credit charter to enable Farm Credit~~  
24 ~~institutions to finance all of production agriculture and to purchase entire farm loans~~  
25 ~~from commercial banks on a voluntary basis are important. Leveraging Farm Credit to~~  
26 ~~provide credit to companies for the further processing of agricultural, forestry, and~~  
27 ~~seafood products should also be considered.~~

28 ~~NASDA opposes any efforts to restructure the Farm Credit System to the extent that~~  
29 ~~farmers would be replaced on boards of directors with commercial bankers. As a~~  
30 ~~cooperative owned and controlled by its customer members, any governance structure~~  
31 ~~changes to Farm Credit institutions should require stockholder approval.~~

32 NASDA supports the Congressionally-established mission of the Farm Credit System,  
33 recognizes the unique nature of agriculture sector financing, and supports a nationwide  
34 system. The Farm Credit System has a mission to serve the financial needs of  
35 agriculture and rural America by providing capital, expert advice and competitive  
36 financial services and products. ~~Agriculture and rural communities need greater, more~~  
37 ~~dependable access to competitive, flexible, financial resources in order to compete in a~~  
38 ~~changing global economy. NASDA supports regulatory and legislative changes that~~  
39 ~~would provide agricultural producers, commercial fishermen, farm and fishing-related~~

1 and other rural businesses, rural homeowners, and others in rural America with broader  
2 access to financing by the cooperative Farm Credit System.

3 ~~We believe efforts to modernize~~ NASDA supports modernizing the Farm Credit charter  
4 to enable Farm Credit institutions to finance all of production agriculture including  
5 commercial fisheries and forestry and, to purchase entire farm loans from commercial  
6 banks on a voluntary basis. Leveraging Farm Credit to provide credit to ~~companies for~~  
7 ~~the further processing of agricultural, forestry, and seafood products~~ all agricultural  
8 processing companies, rural businesses, rural homeowners, and others in rural America  
9 should also be considered.

10 NASDA opposes any efforts to restructure the Farm Credit System to the extent that  
11 farmers would be replaced on boards of directors with commercial bankers. As a  
12 cooperative owned and controlled by its customer-members, any governance structure  
13 changes to Farm Credit institutions should require stockholder approval.

14 **Capital and Credit Needs** — Both the Farm Credit System and commercial banks  
15 compete aggressively to provide capital to low risk borrowers. This practice, however,  
16 leaves behind many borrowers who are ~~still are adjusting to the depressed commodity~~  
17 ~~markets,~~ highly leveraged, are recovering from economic or production losses, or are  
18 beginning farmers. ~~During a time of low profit margins, reduced support programs and~~  
19 ~~increased consolidation in the agricultural processing industries,~~ financial tools that  
20 assist beginning and financially distressed the producers especially the beginning  
21 producer farmers, may should be developed and enhanced from through a combination  
22 of federal, state, and private resources.

23 ~~There are two areas on which NASDA is most focused with regard to capital and credit~~  
24 ~~needs: capitalizing first-time farmers, and retaining~~ considers the capitalization of  
25 beginning farmers, and retention of entry-level, socially disadvantaged or and small,  
26 existing farmers as priority capital and credit needs: “First-time farmers,” as the name  
27 implies, ~~are entering into full time agricultural production for the first time.~~ Today’s  
28 financial projections indicate ~~such a producer will need to generate gross annual~~  
29 ~~revenues in excess of \$100,000 from production alone or production combined with off-~~  
30 ~~farm income.~~ Given the typical financial position of a beginning farmer, ~~three classes of~~  
31 comprehensive capital needs can be identified must be available. The first is capital  
32 Establishing a successful farm or ranch operation requires capital for land ownership or  
33 control of lease arrangements payments, equipment and breeding livestock, ~~and an~~  
34 ~~operating line of credit for inputs and other costs of production.~~ Second, marketing and  
35 risk management costs, retained ownership of grains and livestock. ~~Aand finally, cost of~~  
36 living expenses. ~~These are the target areas for innovative approaches to capital.~~

37 Moreover, retention programs for socially disadvantaged, small existing and entry level  
38 farmers ~~must encompass a wide variety and range of financial and management needs.~~  
39 ~~Such programs should center on the~~ be designed for producers that generate between  
40 \$100,000 and \$500,000 annual gross income. Retention programs should be and be  
41 based on some of the same foundations that ~~the first-time~~ as beginning farmer

1 programs; ~~are~~—namely providing adequate financial resources at affordable costs  
2 rates with cross-collateralization capabilities. ~~In the longer run, Farmer retention efforts~~  
3 ~~should also include~~ programs to help these producers acquire marketing skills and avail  
4 themselves to of value-added opportunities. ~~will greatly benefit farmer retention efforts.~~

5 ~~NASDA also believes the FSA beginning farmer down payment program should be~~  
6 ~~improved by extending the program's current loan amortization program by from 15 to~~  
7 ~~30 years and that all FSA loan programs be maintained with adequate funding.~~

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

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

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

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

### 36 **12.3 Agricultural Mediation Programs**

37 ~~The Executive Director for State Operations, through the Farm Service Agency (FSA),~~  
38 ~~administers the USDA's Certified Agricultural Mediation Programs. The Secretary of~~  
39 ~~Agriculture was authorized to assist states in the development of USDA Certified~~

1 Agricultural Mediation Programs under Section 502 of the Agricultural Credit Act of  
2 1987.

3 Recognizing the efficiency and effectiveness of the Certified Agricultural Mediation  
4 Programs, Congress enacted Section 292 of the Federal Crop Insurance Reform and  
5 the Department of Agriculture Reorganization Act of 1994 which authorized the  
6 expansion of these programs to include, in addition to agricultural credit, the following  
7 areas: wetlands, rural water loan programs, grazing on national forest system lands,  
8 pesticides, compliance with farm programs including conservation programs, and other  
9 issues the Secretary deems appropriate.

10 The 106th Congress reauthorized the Certified Agricultural Mediation Program through  
11 2005 by enacting Section 306 of the Grain Standards and Warehouse Improvement Act  
12 of 2000. The legislation also clarified the use of federal mediation grants for financial  
13 advisory and counseling services for parties requesting mediation. The program is  
14 currently authorized through 2010 and is administered by the Farm Service Agency  
15 Outreach Program.

16 NASDA believes that funding of State Certified Agricultural Mediation Programs is ~~more~~  
17 as important ~~now than~~ as ever. As federal budget constraints continue to reduce funds  
18 for numerous agricultural programs such as the Farm Credit Program, the Conservation  
19 Reserve Program, the Commodity Credit Corporation, and the Federal Crop Insurance  
20 Corporation are eliminated, reduced, or frozen at current levels, there will be fewer  
21 dollars available for farm families. These reductions will increase levels of frustration,  
22 anger, and fear experienced by these families whose resources are already stretched,  
23 creating additional demands for a positive alternative to resolving disputes with the  
24 USDA. In addition, federal mediation funding levels have been inadequate to meet the  
25 demands of the increasing number of state programs.

26 NASDA supports the expansion of state mediation programs and urges the Secretary to  
27 authorize all agricultural disputes approved by individual state mediation programs as  
28 eligible under the USDA grant program.

29 NASDA supports the expeditious issuance of regulations requiring USDA agencies to  
30 offer mediation in cases where adverse decisions are made, and to attend and  
31 participate in a mediation if requested by producers or USDA customers. Regulations  
32 should also include a definition of mediation which provides maximum state program  
33 flexibility as intended by Congress. ~~Confidentially~~ Confidentiality of the mediation  
34 process should be maintained. For audit/evaluation purposes, NASDA believes that  
35 auditors, including the Office of Inspector General, be limited to using confidential  
36 mediation information only for the purpose of verifying the appropriate expenditures of  
37 funds used for mediation and/or evaluating the effectiveness of the program.  
38 Confidential mediation information ~~received~~ obtained through such audits/evaluations  
39 should not be used for any other purpose unless consented to by all mediation  
40 participants.

1 **12.4 Farm Service Agency**

2 **FSA Loan Eligibility** — Statutory term limitations provide that a restrict borrower  
3 eligibility for Farm Service Agency (FSA) loan applicant is not eligible for any direct or  
4 guaranteed loans regardless of borrowers' ability to obtain other credit. ~~The~~  
5 Limitations also provide that a loan applicant restrict borrowers who has received a  
6 receiving debt write-down may receive a to direct or guaranteed annual operating loans  
7 if the applicant is otherwise eligible or loan funds will only be used for annual operating  
8 purposes. NASDA believes FSA borrowers should be assisted and encouraged to  
9 graduate to commercial credit as quickly as possible. However, eligibility should not be  
10 determined by arbitrary term limits. NASDA also believes that FSA borrowers who  
11 previously filed for bankruptcy, ~~or received debt forgiveness or write-downs~~ should  
12 remain eligible for direct and guaranteed operating loans, provided they are current on  
13 their loans under their original or revised plan of operation.

14 ~~As of August 1, 1997, FSA has determined that they will~~ may offset government  
15 payments to any borrower who is 30 or more days delinquent on loan payments. ~~The~~  
16 ~~payments are~~ FSA may offset regardless of payment assignments of the payments to  
17 other lenders, or whether the borrower has applied for FSA loan servicing. ~~This rule~~  
18 ~~results in FSA payment being made through offset of government payment ahead of~~  
19 ~~commercial lenders who had prior loans.~~ NASDA ~~urges~~ believes FSA to reverse this  
20 ~~rule and to~~ should recognize prior assignments of government payments, and release  
21 the proceeds as agreed to in the plan of operation. ~~Further,~~ FSA should not have offset  
22 ~~payments~~ authority until FSA loan servicing actions have been concluded.

23 **FSA Emergency Loans** — Emergency loans are provided to help cover production and  
24 physical losses in counties declared as disaster areas by the President or the Secretary  
25 of Agriculture. Generally, ~~in order to be eligible for an emergency loan, producers must~~  
26 ~~have suffered~~ producer eligibility is triggered by a qualifying physical loss, or a  
27 production loss of at least 30 percent in any essential farm or ranch enterprise.  
28 Producers are only eligible for an emergency loan if they cannot obtain commercial  
29 credit. The loan limit is ~~80~~ 100 percent of actual loss with a maximum loan amount of  
30 \$500,000. Unfortunately, the emergency loan program has been an effective tool for  
31 only a few farmers because substantial assistance is needed to truly recover losses.

32 NASDA urges the creation of a new emergency loan program, similar to assistance  
33 provided to small businesses, that provides measurable assistance to agricultural  
34 producers in disaster situations. ~~We recommend that~~ The program should contain  
35 appropriate loan amount caps ~~be provided in the new program and that the program~~  
36 with broadened its eligibility requirements to assist producers ~~who may not currently be~~  
37 eligible for Farm Service Agency (FSA) under current emergency loans  
38 requirements. Further, NASDA recommends ~~that the amount of actual loss~~  
39 ~~demonstrated by the farmer be covered and that the program's review process for both~~  
40 producer qualifications and agency screening/ loan approval determinations be  
41 simplified.

1 **FSA Direct and Guaranteed Loan Programs** — The FSA guaranteed loan program  
2 has proven to be cost effective in reducing federal budget outlays. However, some rural  
3 areas have a shortage of commercial lending institutions that are interested in  
4 production agricultural lending. In such areas, the FSA Loan Guarantee program is of  
5 little value and leaves many producers dependent on FSA direct loans to finance their  
6 operations. NASDA urges continuation of and adequate funding for FSA direct loan  
7 programs. In keeping with the mission of FSA lending, NASDA also urges that FSA  
8 guaranteed loan limits remain capped at reasonable levels.

9 Under FSA Instruction 1951-S, required loan servicing actions are offered to producers  
10 who become delinquent on FSA direct loans. FSA guaranteed loans provide a  
11 substantial safety net for commercial lenders and even though 1951-S loan servicing is  
12 available to guaranteed lenders, they are not required to utilize the servicing options  
13 before loan liquidation. ~~NASDA urges that~~ recommends an incentive, such as a higher  
14 percentage guarantee, be offered to commercial lenders who agree to service  
15 delinquent guaranteed loans according to 1951-S.

16 **FSA Interest Assistance Program** — Interest assistance is provided on guaranteed  
17 loans if cash flow projections indicate the necessity for a feasible repayment schedule.  
18 ~~For producers needing interest assistance, t~~ The program is a valuable tool. However,  
19 program funding for interest assistance is often limited inadequate. NASDA ~~urges~~  
20 recommends that guaranteed loan interest assistance be re-evaluated following the  
21 year end analysis of the farm/ranch operation, ~~and that only the actual amount of~~  
22 needed assistance required for repayment be provided. Any interest assistance  
23 obligated but not distributed should be retained by the program and added to the next  
24 fiscal year's appropriation. ~~It is also urged that~~ NASDA also recommends a higher level  
25 of interest assistance be provided to beginning farmers demonstrating the need for  
26 additional assistance.

27 **12.5 Improved Seller Protections For Hay Marketing**

28 ~~Hay marketing in the Western United States remains largely an unregulated industry.~~  
29 ~~Hay producers do not enjoy the localized marketing benefits available to producers of~~  
30 ~~livestock, grains, and fruit and vegetables. Hay producers do not benefit from federal~~  
31 ~~protection such as the Packers and Stockyards Act, the Federal Grain Inspection Act, or~~  
32 ~~the Perishable Agricultural Commodities Act.~~

33 ~~This absence of marketing options has resulted in producers often times having to~~  
34 ~~market their crops directly to the consumer or through a loose network of brokers and~~  
35 ~~truckers/dealers. Frequently, these firms are undercapitalized and are unable to absorb~~  
36 ~~losses that may occur, especially in times of high price variability and weather related~~  
37 ~~emergencies. All too often, the losses from fraudulent or financially-squeezed hay~~  
38 ~~dealers are borne by the hay producers.~~

39 ~~NASDA supports a system of reciprocity so that regulatory actions of interstate hay~~  
40 ~~dealers can be recognized and sanctions made against violators on a consistent basis~~  
41 ~~across the United States.~~

## 12.6 Protection For Tenants And Sharecroppers

Many landowners are opting not to renew long-standing production contracts with producers so that they may receive transition payments from USDA. As a consequence, land is being diverted to other uses, such as pine plantations, and producers are unable to acquire adequate land for crop production. Not only are these producers, who are dependent on leased land, being denied land-rent contracts, they are also being denied transition payments which go to the landowner. In many cases, the payments are based on the production history of the tenant or sharecropper.

Immediate steps should be taken to protect the rights of tenants and sharecroppers' availability to land previously rented or cropped, and eligibility for transition payments where they have established crop production bases on lands owned by others.

## 12.7 Tax Provisions Affecting Agriculture

**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.

**Business Tax Provisions** — The Internal Revenue Service (IRS) has informed farmer cooperatives that are organized under both: Subchapter T, Sections 1381-88 and Section 521 of the IRS (code) that when a commodity is processed through an animal, IRS will NOT deem the proceeds from the marketing aspects of the processing or manufacturing functions to be patronage sourced income.

The Internal Revenue Code should be amended to re-establish the marketing aspects of both Subchapter T and Section 521 cooperatives as it relates to a farmer's product through an animal.

This will allow the Rural Development (RD) Agency to guarantee loans to cooperatives based on adding value to commodities through animal utilization. Likewise the change in the IRS code will allow some states to use "private issue" bonding authority for similar cooperative development.

**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 operations, including farms, ranches and agribusiness enterprises.

1 Taxes paid on capital gains prove to be disincentives for agricultural producers.  
2 Agricultural operations require large amounts of capital to operate efficiently and that  
3 efficiency is taxed away through high taxes on capital gains. NASDA recommends that  
4 Congress enact a \$500,000 capital gains tax exemption on farm assets, similar to the  
5 \$500,000 homeowner capital gains exclusion. This exemption should also be indexed  
6 to reflect inflation.

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

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

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

27 NASDA supports increasing the limit to \$10,000 on IRA's for farmers and ranchers.

28 ***Self-Employment Taxes*** — NASDA supports the elimination of the self-employment  
29 tax on income from rent of farmland, including CRP rents. Further, NASDA  
30 recommends that farmers who have gross income of \$2,400 or less be able to report  
31 \$1,600 as net earnings from farm self-employment.

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

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

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

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

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

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

- 17 • 20% tax credit for environmental/conservation improvements expenditures.
- 18 • 20% tax credit for agricultural research directed by agricultural producer  
19 committees to include new crops, agriculturally-derived alternative energy  
20 sources, and new value-added products.
- 21 • 20% tax credit for young farmer and rancher program contributions.
- 22 • 20% tax credit for education and promotion of U.S. grown products.

23 The economic future of our nation's agriculture depends on the ability of new  
24 generations to enter farming and ranching. The barriers faced by the next generation  
25 are significant, and merit immediate attention by policy makers. NASDA supports tax  
26 incentives and capital gains exclusion for selling to first time farm/ranch buyers.

27 As a means to enable producers to survive periods of low profitability, farm savings  
28 accounts should be created to level out income flows. NASDA recommends Congress  
29 establish Farm Savings and Retirement Accounts as a necessary management tool for  
30 U.S. farmers and ranchers.

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

1 **Self-Employment Taxes**— NASDA also supports the elimination of the self-  
2 employment tax on income from rent of farmland, including CRP rents. Further, NASDA  
3 recommends that farmers who have gross income of \$2,400 or less be able to report  
4 \$1,600 as net earnings from farm self-employment.

## 5 **12.8 Farm Income and Production Stability**

6 Agriculture is changing at an increasingly rapid pace; consequently, there is a need  
7 for improved, comprehensive risk management programs is an ongoing work in  
8 progress. ~~Sound risk management programs are a combination of federal and state~~  
9 ~~governments and private industry working together to provide products, information and~~  
10 ~~opportunities to producers who are willing to utilize risk management opportunities and~~  
11 ~~form risk management plans. Risk management encompasses education, marketing,~~  
12 ~~and primarily crop insurance programs. Risk management tools must be flexible,~~  
13 ~~comprehensive, versatile, simplified, and readily available to producers. Crop/Livestock~~  
14 ~~insurance and disaster programs must complement one another to ensure adequate~~  
15 ~~coverage for producers, with risk management programs serving as the first line of~~  
16 ~~defense.~~ Covering production costs and ensuring a minimum price are two elements to  
17 consider in a crop insurance/risk management proposal. As farmers are exposed to  
18 unpredictable and unusual risks, it is essential that a crop insurance/risk management  
19 plan cover, at a minimum, the input cost of production to a producer.

20 Disaster assistance should always be an option in the face of national crisis, but it must  
21 be provided in an ongoing, consistent, and predictable manner to be fully effective.  
22 Permanent disaster assistance should be provided for in farm policy rather than on an  
23 ad hoc basis. Disaster assistance should be relative to the cost of production with  
24 payment eligibility determined by participation in a federally sanctioned program, where  
25 available.

26 In addition, the federal government should ensure ~~the stabilization of prices received by~~  
27 ~~farmers while at the same time ensuring that such stabilization of prices does not distort~~  
28 ~~production levels~~ provide commodity price support in a manner which minimizes  
29 production distortion. Major, sustained low market price levels losses cannot be  
30 ~~protected against~~ compensated with by an actuarially sound insurance program that is  
31 ~~required to be actuarially sound.~~ Commodity price protection must be provided by  
32 separate farm policy. Substantial federal support to producers must be provided during  
33 low price periods.

## 34 **Crop/Livestock Insurance** —

35 ~~Coverage:~~ Crop and livestock insurance coverage must be meaningful and  
36 comprehensive. At the same time, premiums must not be cost prohibitive for producers;  
37 especially beginning farmers who are unable to secure adequate crop insurance  
38 coverage.

39 NAP insurance coverage should be improved with buy-up coverage available for  
40 additional premiums. The buy-up level for NAP should be capped at 65% of yield and

1 65% of price. NAP coverage for grazing must be improved to be commensurate with  
2 similar coverage on annual planted crops.

3 Beginning farmers without a production history should be allowed to use historical  
4 county level production data or the actual production data applying to that land. USDA  
5 should offer beginning farmers a higher subsidy on the crop insurance premium as an  
6 incentive to enter the agriculture industry.

7 ~~While c~~Current federal policies give producers more flexibility in making production  
8 decisions,  ~~However, many specialty, alternative and non-traditional crops have and will~~  
9 ~~continue to proliferate and must be included in~~ are still ineligible for crop insurance  
10 coverage.  ~~USDA should accelerate the development of appropriate risk management~~  
11 ~~tools for fruits and vegetables, nursery, vineyard, seed, citrus, tree crops, livestock,~~  
12 ~~aquaculture, and milk. Additional premium subsidies should be provided since no~~  
13 ~~countercyclical assistance program exists for these crops~~ and livestock.

14 Innovative and good farming practices ~~which involve~~ ing numerous crops rotations  
15 should be encouraged through crop insurance.  ~~However, currently a producer's ability~~  
16 ~~to quickly establish the Actual Production History (APH) required to apply for sufficient~~  
17 ~~levels of crop insurance is hindered by crop rotations and producers who plant many~~  
18 ~~different crops suffer undue set backs because of the APH requirements. During~~  
19 ~~establishment of an individual actual production history, improved substitute yields~~  
20 ~~should be available to new producers of crops if the crops are already proven suitable~~  
21 for the region.

22 Organic producers lack effective financial protection through current crop insurance  
23 price elections. USDA should base crop insurance price elections for organic crops on  
24 organic rather than conventional commodity prices.

25 ~~Crops currently not insured and non-traditional crops should be covered by crop~~  
26 ~~insurance. A crop insurance program should be designed to promote innovation and~~  
27 ~~alternative crops. Additional resources will be necessary to aggressively expand~~  
28 ~~insurance coverage to all crops and livestock. Premium subsidies should be higher for~~  
29 ~~higher levels of coverage and lower for lower levels of coverage, encouraging producers~~  
30 ~~to carry more coverage.~~

31 Participation: Crop and livestock insurance must provide meaningful coverage and  
32 provide incentives for farmers to purchase the insurance. Premium subsidies should be  
33 higher for higher levels of coverage and lower for lower levels of coverage encouraging  
34 producers to carry more coverage. Any natural disaster assistance provided ad hoc or  
35 through a permanent disaster program should be contingent upon participation in the  
36 crop insurance or noninsured assistance programs. Disaster assistance must not be a  
37 disincentive to purchasing crop insurance; rather the two programs should complement  
38 one another.

1 ~~An appropriate role for the producer, the federal government and private insurers must~~  
2 ~~be established. Primary delivery of catastrophic (CAT) crop insurance should be~~  
3 ~~through the Farm Service Agency. Buy-up coverage should be available through~~  
4 ~~insurance companies, in conjunction with federal government underwriting and~~  
5 ~~subsidies. Premiums must be affordable and should provide incentives for producers to~~  
6 ~~carry higher rather than lower levels of coverage. Crop insurance programs should be~~  
7 ~~developed on a regional and/or state basis. The states should have a role in crop~~  
8 ~~insurance programs as they are uniquely positioned to handle the administration of the~~  
9 ~~federal portion of the crop insurance program. To improve efficiencies, the USDA and~~  
10 ~~state departments of agriculture should consider cooperative agreements where~~  
11 ~~appropriate.~~

12 Additional elements of a crop insurance program to consider are cost of  
13 production insurance, whole farm revenue insurance and long-term reserve accounts. A  
14 cost of production insurance policy would allow producers to insure a percentage of  
15 actual production costs. Cost of production insurance could be expanded to all  
16 commodities and possibly become a preferable base insurance program. Whole farm  
17 revenue insurance would allow producers to purchase insurance guaranteeing a certain  
18 percentage of revenue for the whole farm. It would provide protection against  
19 unavoidable losses of production and low prices. Long-term reserve accounts are a  
20 way for farmers to save, on a tax-deferred basis, during good times for poorer years.

21 ~~NASDA believes that legislation should be passed which supports a farm policy and/or~~  
22 ~~a plan of insurance that includes must provide quality loss adjustment coverage. A~~  
23 ~~properly designed permanent disaster assistance program based on whole-farm~~  
24 ~~revenue would compensate for quality price losses in the "revenue to count" calculation.~~  
25 ~~Under this legislation For inventoried commodities requiring sampling, samples shall~~  
26 ~~should be taken and analyzed by a grain grader licensed under the authority of the~~  
27 ~~United States Grain Standards Act or the United States Warehouse Act or the Uniform~~  
28 ~~Grain and Rice Storage Agreement, or by a laboratory approved by the USDA Risk~~  
29 ~~Management Agency.~~

30 ***Disaster Situations*** — Farmers do not have access to the same types of federal  
31 assistance as other businesses following a natural disaster. Farm Service Agency ~~E~~  
32 ~~emergency loans are provided to help cover production and physical losses in counties~~  
33 ~~declared as disaster areas by the President or the Secretary of Agriculture.~~  
34 ~~Unfortunately, the emergency loan program has not been an effective tool for most~~  
35 ~~farmers. The emergency loan program should be revised as described under Policy~~  
36 ~~Section 12.4. Generally, in order to be eligible for an emergency loan, producers must~~  
37 ~~have suffered a qualifying physical loss, or a production loss of at least 30 percent.~~  
38 ~~Producers are only eligible for an emergency loan if they cannot obtain commercial~~  
39 ~~credit. The loan limit is 80 100 percent of actual loss with a maximum loan amount of~~  
40 ~~\$500,000.~~

41 ~~NASDA urges a revised FSA emergency loan program, similar to assistance provided to~~  
42 ~~small businesses, that provides measurable assistance to agricultural producers in~~

1 ~~disaster situations. We recommend that appropriate loan amount caps be provided in~~  
2 ~~the new program and that eligibility for the program be expanded to producers who may~~  
3 ~~not currently be eligible for Farm Service Agency (FSA) emergency loans. Further,~~  
4 ~~NASDA recommends that the entire amount of actual loss demonstrated by the farmer~~  
5 ~~be covered up to the limit of repayment capability, and that the program's review~~  
6 ~~process for both producer qualifications and agency screening/loan determinations be~~  
7 ~~simplified.~~

8 When a federal natural disaster has been declared, we recommend that the Federal  
9 Emergency Management Agency (FEMA) be given the authority to make grants  
10 immediately available to agricultural producers in order for them to make emergency  
11 repairs. [NASDA urges the USDA to designate Section 32 funds for natural disasters](#)  
12 [that would be available for immediate dispersion. Agricultural producers need an](#)  
13 [immediate response in the event of to a natural disaster so that they can to remain in](#)  
14 [business.](#)

15 In addition, farmers should be eligible for low interest loans from the Small Business  
16 Administration and other appropriate agencies for assistance following the disaster.

17 Disaster situations in agriculture are inevitable. The challenge for lawmakers and the  
18 federal government is to develop a program or plan to lessen the impact of such  
19 disasters. However, until crop insurance/risk management programs are established  
20 that are capable of totally replacing ad hoc disaster assistance, producers and the  
21 federal government should have a consistent way of coping with disasters through a  
22 permanent disaster assistance program. Federal disaster assistance should not  
23 undermine the intent of crop insurance programs.

24 Disaster assistance should be designed in a fashion that does not cause disincentives  
25 to purchase buy-up insurance coverage or NAP policies. Limits should be established  
26 to prevent producers from receiving more in crop sales, insurance indemnities, and  
27 disaster assistance than would be expected in a normal production year. However,  
28 producers must not be financially penalized for carrying higher insurance coverage.  
29 Disaster assistance eligibility should be premised on carrying buy-up insurance if  
30 available, excluding participation in pilot insurance programs.

31 ~~NAP insurance coverage should be improved with buy-up coverage available for~~  
32 ~~additional premiums. The buy-up level for NAP should be capped at 65% of yield and~~  
33 ~~65% of price. NAP coverage for grazing must be improved to be commensurate with~~  
34 ~~similar coverage on annual planted crops.~~

35 Eligibility for disaster assistance should be triggered by evidence of producer loss based  
36 upon total farm revenue. Disaster assistance should focus on the gap between  
37 expected farm revenue (including insurance indemnities) and the farm's insurance  
38 guarantee.

1 NASDA supports planning for emergencies involving states, together with any  
2 legislative changes. In the event of a federally declared disaster under which the  
3 Robert T. Stafford Disaster Relief and Emergency Assistance Act is invoked, NASDA  
4 recommends that the USDA be required to deploy disaster liaisons to coordinate  
5 appropriate resources within USDA and with other agencies.

6 ~~NASDA urges the USDA to designate Section 32 funds for natural disasters that would  
7 be available for immediate dispersion. Agricultural producers need immediate response  
8 in the event of a natural disaster so that they can remain in business. NASDA will  
9 support administrative changes that would provide agricultural producers, commercial  
10 fishermen, farm- and fishing-related businesses an opportunity to receive an immediate  
11 response to natural disasters in order to return to and continue providing food, fuel, and  
12 fiber for our people.~~

13 NASDA believes the USDA and the United States Congress should review the  
14 effectiveness of risk management tools and explore all options to provide farmers with  
15 improved risk management tools. **Better coordination between the USDA and other  
16 federal, state, and local agencies is needed in developing a more inter-related program  
17 of risk management and disaster assistance for U.S. producers to deal with localized  
18 disasters.**

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

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

39 **NASDA's ideas are built on the principle that the most effective agricultural policy is one  
40 that allows today's producers to manage all the risks they face in order to maximize  
41 their opportunities for profitability. U.S. farm policy should not guarantee that every**

1 farmer makes a profit; it should, however, provide all farmers and ranchers an adequate  
2 safety net and a range of tools to manage risk, in all its forms, to ensure that good  
3 producers are not put out of business due to arbitrary forces beyond their control.

4 A price/income safety net is a necessity for the agriculture industry in today's global  
5 competitive markets. NASDA supports efforts to increase baseline agricultural  
6 spending ~~over the next ten years~~ in order to provide a reliable and effective safety net.  
7 However, we recognize that the U.S. must balance such support with its obligation  
8 under the WTO's "amber box" spending classifications.

9 NASDA believes that maintaining the marketing loan and countercyclical programs is  
10 necessary not only for the economic stability of domestic producers, but to demonstrate  
11 to our trading partners that the U.S. is serious about using all the tools available under  
12 the World Trade Organization (WTO) to maintain U.S. market share. ~~The next farm bill~~  
13 must also retain planting flexibility must also be retained which will allow producers  
14 to plant crops they believe will provide the greatest return.

15 Despite several reform and improvement efforts, the crop insurance program has been  
16 unable to provide adequate production loss protection from natural disasters,  
17 particularly the first losses not covered by insurance. The continued need for federal ad  
18 hoc production disaster programs confirms the shortcomings of the crop insurance  
19 program. NASDA believes a permanent disaster program which compliments crop  
20 insurance should be a fundamental component of the farm policy safety net.

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

31 ~~One of the benefits of cost of production-based insurance is its relatively straightforward~~  
32 ~~structure. A participating farmer would be required to document all production~~  
33 ~~expenses. Then, he would determine his gross income from sales of his crop and any~~  
34 ~~government assistance payments he may have received. If that total income exceeded~~  
35 ~~90% of his documented cost of production, the producer would receive no indemnity~~  
36 ~~payment. If, due to market conditions, weather, disease, or other events beyond the~~  
37 ~~producer's control, his total gross income is less than 90% of his cost of production, he~~  
38 ~~would receive an indemnity payment for the difference between his actual receipts and~~  
39 ~~90% of his cost of production.~~

1 Although cost of production insurance was included in the Agricultural Risk Protection  
2 Act of 2000, NASDA recommends that an additional \$1 billion be provided annually to  
3 expedite the development of cost of production policies. Initial commodities to be  
4 covered by the cost of production policy should include fruits and vegetables, nursery,  
5 vineyard, seed and tree crops, livestock and milk. We also recommend that additional  
6 premium subsidies be provided to growers of these crops, recognizing the fact that no  
7 counter cyclical assistance program exists for them though they are experiencing the  
8 same market difficulties as growers of major field crops.

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

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

29 The proposed Counter Cyclical Payment plan would (1) provide stability by supporting  
30 U.S. producers at a sustainable farm revenue; (2) be available to producers of corn,  
31 wheat, sorghum, barley, oats, rice, cotton, soybeans, and milk; (3) consist of both a  
32 fixed, and a variable payment; (4) replace AMTA payments; and (5) fulfill all WTO  
33 Amber Box commitments.

34 Counter cyclical payments would be made on a 90/90 basis; they would cover 90  
35 percent of a national average economic cost of production (as defined by USDA/ERS)  
36 and be comprised of two components: variable and fixed. Up to 90 percent of the total  
37 payment would be variable and counter cyclical to the market; the remaining 10 percent  
38 of the payment would be fixed and based on an updated five year history (from 1996 to  
39 2000) of base crop acres and yield. The variable payment would be paid on actual  
40 production of each producer. It would be calculated as the difference between actual  
41 average market prices and 90 percent of 90 percent (81%), of the total average cost of

1 production. NASDA also recommends that the restriction on planting fruits and  
2 vegetables on acreage eligible for counter cyclical assistance be maintained.

3 **Dairy Policy** — The 1996 FAIR Act maintained the federal milk marketing orders by  
4 reorganizing and consolidating them into the current twelve orders. While the federal  
5 orders are designed to respond to changes in milk production patterns and marketing  
6 and pricing systems, they have not been able to eliminate the frequent and significant  
7 drops in milk prices paid to dairy farmers.

8 NASDA has attempted to gain consensus on a national dairy policy. In keeping with the  
9 development of a program that would provide counter cyclical price support for dairy  
10 farmers, NASDA supports federal dairy policy that would establish a counter cyclical  
11 payment program through federal and state milk marketing orders to ensure that  
12 revenues received by dairy producers from sales of Class III and Class IV milk are no  
13 less than 90 percent of nationwide cost of production, or \$11.08 per cwt, whichever is  
14 less. Total payments are not to exceed \$1 billion per year. Moreover, in addition to  
15 direct payments, NASDA supports the States' right to create multi-state marketing  
16 agreements in order to enhance milk prices within their regions, though such authority  
17 would not be intended to erect trade barriers. States participating in regional compacts  
18 would not be eligible for direct dairy payments. The policy would also extend the dairy  
19 price support purchase program at the current price of \$9.90 per cwt; maintain the  
20 current CCC purchase prices for nonfat dry milk and butter at their current rates; and  
21 extend the Dairy Export Incentive Program (DEIP).

22 The dairy sector of the agriculture industry is critical to the economical and nutritional  
23 health of this nation. NASDA actively supports policies which continue to provide a  
24 market safety net for U.S. dairy producers. Dairy policy must continue to be flexible and  
25 available to producers as markets continue to vary greatly year to year. Milk prices  
26 should reflect local value ~~not~~ rather than national price. The market price of farm milk  
27 should be determined by its local availability and marketing demand per classification of  
28 use. ~~A~~ Dairy producers should be responsible only for the marketing/transportation  
29 costs associated with ~~his or her~~ their milk as are other farm commodity producers.

30 **National Dairy Producer Security** — The establishment of a dairy industry security  
31 reserve fund would help to protect American dairy producers from losses resulting  
32 from bankruptcy of a processor/handler. This fund could be funded through  
33 assessments on processors not to exceed two cents per hundredweight. Producers who  
34 suffer a loss because of the bankruptcy of their processor/handler could make a claim  
35 against the fund for unpaid milk shipments to that handler.

36 Currently, the issue of dairy producer security is left to each individual state; however,  
37 only about half of the states have dairy producer security laws. NASDA believes that  
38 the absence of adequate protection in many states, together with the confusion that is  
39 created for processors who have operations in several states with a variety of different  
40 producer security laws, requires that this problem be resolved at the federal level.

1 NASDA specifically supports continuation of the Milk Income Loss Contracts (MILC)  
2 program, with adjustments to double the per farm production cap and establish flexibility  
3 to encourage multi-family or multi-generational dairy farm operations.

4 NASDA supports continuation of Cooperatives Working Together (CWT), the self-help  
5 program administered by the National Milk Producers Federation Cooperatives Working  
6 Together (CWT) and maintaining states' right to create multi-state marketing  
7 agreements in order to enhance milk prices within their regions.

8 NASDA also supports creation of a revenue insurance pilot program to provide  
9 comprehensive and adequate revenue insurance for dairy producers that is cost  
10 effective with payments triggered by price fluctuations at a levels to which enhance the  
11 viability of small-scale dairy farms.

12 **Education** — Education is an important component of any risk management plan. The  
13 USDA should educate producers and lenders about risk management strategies.  
14 Education must extend beyond basic crop insurance/risk management programs.  
15 Education should provide basic management training, financial management  
16 accounting/bookkeeping, human resources, organizational development, and domestic  
17 and international marketing. Educational forums should be positioned as incentives for  
18 obtaining lower crop insurance premiums from the federal government.

19 The Risk Management Agency's dairy options pilot program concept should be  
20 expanded to other traded commodities. By combining crop insurance and risk  
21 management tools, farmers can develop a total risk management plan. This approach  
22 enables a farmer to move into a more market-oriented world.

23 **Beginning Farmers** — ~~As the average age of the American farmer rises,~~  
24 ~~Congress must find ways to attract younger farmers into the business. Without a~~  
25 ~~generation to pass the farm onto, the United States leaves itself vulnerable. Possible~~  
26 ~~incentives are lower farm revenue insurance premiums, targeted risk management~~  
27 ~~programs, and tailored training and education programs. Free CAT coverage is offered~~  
28 ~~to limited resource farmers and a greater premium subsidy should be provided for the~~  
29 ~~beginning farmers. The federal government should provide incentives for increased~~  
30 ~~participation by younger generations.~~

31  
32 ~~Beginning farmers often have difficulty in securing adequate financing. Start-up farm~~  
33 ~~operations are typically highly leveraged with minimal cash-flow margins. These~~  
34 ~~financial conditions increase risk and loan positions for lenders. The loss risk may also~~  
35 ~~be a deterrent for some to enter the business.~~

36 ~~In many cases, beginning farmers do not own farmland. Those who do own farmland~~  
37 ~~often have the real estate financed by one lender and look to another lender for annual~~  
38 ~~operating financing. Operating losses pose the greatest risk for highly leveraged~~  
39 ~~operations since equity in secondary collateral sources is not usually available for the~~  
40 ~~refinancing of operating repayment shortfalls. Cost of production insurance would~~

1 greatly reduce the risk of operating losses to both beginning farmers and their lenders.  
2 Lenders would be much more comfortable and willing to provide adequate operating  
3 loans to beginning farmers if a true Cost of production insurance plan were in place to  
4 help ensure the repayment ability of the loans.

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

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

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

- 26 • Insufficient farm entry strategies
- 27 • Insufficient farm exit strategies
- 28 • Inability to acquire the initial capital investment
- 29 • Difficulty of identifying viable farm entry opportunities
- 30 • Obtaining appropriate financial, managerial, and production training and
- 31 assistance
- 32 • Obtaining appropriate community support.

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

1 development agenda of government as well as the private sector, including farm  
2 organizations.

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

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

- 11 ~~• Provide income tax incentives to existing farmers who are assisting a beginning~~  
12 ~~farmer~~
- 13 ~~• Provide for property tax incentives to existing farmers who are assisting a~~  
14 ~~beginning farmer~~
- 15 ~~• Establish a beginning farmer loan program in the states where they do not~~  
16 ~~currently exist~~
- 17 ~~• Establish a guarantee for lease payments.~~

18 Retirement and succession planning are of considerable importance to farm households  
19 and tools should be available to farmers and ranchers to make decisions that enhance  
20 their own futures as well as the future of agriculture.

21 NASDA believes new business succession and farmland tenure models must be  
22 developed. These models must be regionally appropriate and respond to the unique  
23 needs of both beginning and retiring farmers and ranchers. Models should also  
24 recognize farms that produce energy, such as dairy farms with manure digesters.

25 NASDA supports tax incentives and capital gains exclusion for selling to first time  
26 farm/ranch buyers. NASDA also supports USDA grants to state departments of  
27 agriculture to provide assistance /guidance to transition farms and farming operations  
28 from current ownership to the next generation of family farms.

29 **Farm Viability Programs** – National farm viability policy can and should be relevant to  
30 all operations, from the maple sugar producer in New England to the shellfisheries off  
31 our nation's coasts, from the tree and shrub production regions in the Northwest to the  
32 citrus groves of the South. Farm viability programs administered by states and  
33 supported by the federal government must recognize all sectors of the industry are  
34 important. They must acknowledge all of agriculture needs to grow to sustain the  
35 versatility and diversity of the industry.

36  
37 In doing so, these programs will nurture a culture of innovation and entrepreneurship  
38 that will result in the creation of new markets, both close to home and abroad, and the  
39 development and improvement of new and existing products. This will create a stream

1 of new ideas and actions that will help us to achieve the three goals that all states have  
2 for their agriculture – sustaining working farmland, improving farm profitability and  
3 preparing new and next-generation farmers to carry on. Ultimately, success in all these  
4 efforts will lead us to our goal of strengthening all agricultural sectors.

5  
6 These types of investments have proven successful for agriculture in the past. For  
7 example, the emphasis on biofuels has boosted the grain industry, while the success of  
8 farmers markets has helped strengthen the connection between farms and the people  
9 who depend on them for healthy, nutritious foods. These investments also must focus  
10 on retaining agricultural and rural youth in next-generation businesses, attracting new,  
11 non-traditional residents to farming, pursuing new capital, and meeting the demand for  
12 fresh products that support healthy diets. While these are important projects, providing  
13 cost-share dollars to states that have established farmland viability programs would  
14 allow USDA Rural Development to more closely fulfill its mission of facilitating economic  
15 development in rural areas.

16  
17 In short, agriculture faces the need to continue to reinvent itself, adapt to new market  
18 opportunities, capitalize on emerging trends, all while remaining relevant to its core  
19 customers.

20 ~~**Farm Viability Programs** — Recognizing that keeping farms profitable and viable is the~~  
21 ~~most effective means of maintaining working farmland in productive agriculture, several~~  
22 ~~states have developed farm viability programs. These programs provide financial~~  
23 ~~assistance to farms to undertake projects that will improve the efficiency,~~  
24 ~~competitiveness, and market reach of their operations. For example, a farm looking to~~  
25 ~~market a new product might use financial assistance from such a program in developing~~  
26 ~~a feasibility study. Program funds could also be used to fund agricultural economic~~  
27 ~~development specialists at the local level. In some states, the assistance is tied to~~  
28 ~~easement limitations that restrict development on the land. In other states, funding is~~  
29 ~~contingent upon the applicant having completed a farmland viability plan that details~~  
30 ~~how the applicant is seeking to achieve greater profitability.~~

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

37 ~~This program, however, has become known mostly for funding water and wastewater~~  
38 ~~infrastructure projects in rural areas. While these are important projects, providing cost-~~  
39 ~~share dollars to states that have established farmland viability programs would allow~~  
40 ~~USDA Rural Development to more closely fulfill its mission of facilitating economic~~  
41 ~~development in rural areas. NASDA recommends that \$150 million be allocated~~  
42 ~~annually for state departments of agriculture to administer farm viability partnership~~  
43 ~~grants. Such a partnership grant should be administered through a cooperative~~

1 ~~agreement in each state by the state's Department of Agriculture or its designee, and a~~  
2 ~~base of \$2 million per state should be allocated annually.~~

### 3 **12.9 Producer Security**

4 **Warehouse Regulation** — States are very concerned about the final rules to the U.S.  
5 Warehouse Act of 2000 which were published in the Federal Register by USDA on  
6 August 5, 2002. These final rules were released without opportunity for comment on  
7 the language that was added in subsection(c), Part 735.1 which reads, "Compliance  
8 with state laws relating to the warehousing, grading, weighing, storing, merchandising or  
9 other similar activities is not required with respect to activities engaged in by a  
10 warehouse operator in a warehouse subject to a license issued in accordance with this  
11 part." The U.S. Warehouse Act should not preempt state authority to provide protection  
12 to producers doing business with federally licensed warehouses. The USWA should not  
13 preempt state warehouse laws governing grain merchandising and producer grain  
14 purchase obligations. NASDA believes that the USDA does not have exclusive  
15 authority to regulate merchandising related activities of grain warehouses licensed  
16 under USWA. Appropriate legislative action to amend the U.S. Warehouse Act should  
17 be pursued.

18 Mandatory state warehouse programs have been established in many states to both  
19 adequately serve agricultural commodities and to protect farmers from suffering  
20 financially if a warehouse experiences inventory shortages or financial insolvency. The  
21 voluntary federal warehouse program also serves agricultural commodities, but lacks  
22 many protections for farmers.

23 All warehouses that store agricultural commodities for the public are licensed either by  
24 the USDA via the United States Warehouse Act (USWA) or by the respective state in  
25 which the warehouse operates.

26 Further, 23 states also regulate the merchandising of grain through grain dealer laws.  
27 These state programs serve the agricultural community well in terms of cost efficiencies  
28 and regulatory oversight.

29 USDA has never regulated the merchandising of grain. The USDA has taken the  
30 position that the USWA covers the merchandising of agricultural commodities and that  
31 the industry is not required to follow state law. States are very concerned about the  
32 USDA's interpretation that the federal law supersedes state law in the area of  
33 merchandising. This interpretation could not only lead to zero protection for farmers  
34 who merchandise agricultural commodities at a warehouse licensed under the USWA,  
35 but also put in jeopardy state programs where commodity producers have chosen to  
36 pay into indemnity funds for their own protection.

37 NASDA believes that the USDA should cooperate with the state departments of  
38 agriculture in the regulation of agricultural commodities' warehouse activities to provide  
39 producers with the best protection possible while subjecting the industry to the minimum

1 amount of regulatory oversight. A cooperative agreement between the state(s) and the  
2 USDA would benefit the producer, the industry, and the taxpayers.

3 NASDA urges the administration and the U.S. Congress to direct the USDA to  
4 collaborate with state agencies and to recognize the states authority to license and  
5 regulate grain dealer and merchandising activities of federally licensed grain  
6 warehouses and examine all agricultural warehouses within their states irrespective of  
7 their license status under the U.S. Warehouse Act.

8 ~~**National Dairy Producer Security**—The establishment of a dairy industry security  
9 reserve fund would help to protect American dairy producers from losses resulting  
10 from bankruptcy of a processor/handler. This fund could be funded through  
11 assessments on processors not to exceed two cents per hundredweight. Producers who  
12 suffer a loss because of the bankruptcy of their processor/handler could make a claim  
13 against the fund for unpaid milk shipments to that handler.~~

14 ~~Currently, the issue of dairy producer security is left to each individual state; however,  
15 only about half of the states have dairy producer security laws. NASDA believes that  
16 the absence of adequate protection in many states, together with the confusion that is  
17 created for processors who have operations in several states with a variety of different  
18 producer security laws, requires that this problem be resolved at the federal level.~~

## 19 **12.10 Financing for Agricultural Cooperatives**

20 Farmer-owned cooperatives are an important and integral part of American agriculture.  
21 For decades, cooperatives have provided many necessary services and products to  
22 farmers and have been a critical tool for farm profitability. In the current global economic  
23 environment, however, agricultural cooperatives face many new challenges. One major  
24 challenge is access to equity capital needed to modernize and expand as well as to  
25 capitalize on new market opportunities.

26 In an effort to better finance and capitalize their businesses, farmers and cooperatives  
27 are looking at various business models and structures that were not contemplated just a  
28 few years ago. Because of dated eligibility requirements established under federal law,  
29 cooperatives that adopt new business structures may no longer be able to borrow from  
30 CoBank, which has been the primary source of credit for farmer cooperatives for more  
31 than 70 years.

32  
33 NASDA supports legislation that provides greater flexibility for farmer cooperatives to  
34 maintain their eligibility for CoBank financing. Such legislation would:

- 35 • Clarify that entities ~~that have~~ with both a producer and investor class of  
36 membership are eligible for CoBank financing, provided ~~that~~ the producer class  
37 holds at least 50 percent of the voting control and operates on a cooperative  
38 basis.
- 39 • Permit agricultural cooperatives organized consistent with revised state laws to  
40 continue to be eligible for CoBank financing.

- 1 • Allow cooperative customers that are adopting new business structures to  
2 continue to be eligible for CoBank financing as long as the customer maintains at  
3 least 50 percent farmer ownership or control.
- 4 • Provide that cooperatives that are existing CoBank customers, but which  
5 restructure in a manner that would make them ineligible for CoBank financing  
6 (fails to meet 50 percent farmer ownership control criteria) can remain eligible for  
7 a five-year transition period while the cooperative establishes new lending  
8 relationships.

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