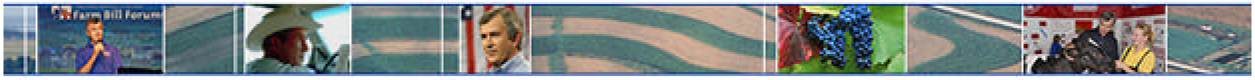

PRODUCTION CONTROLS

Background

U.S. commodity programs, from their inception in the 1930s to the present day, have had some form of acreage or production controls as a component of agricultural policy. Some crop programs, such as tobacco and peanuts, had strict production and marketing controls; other crop programs, such as wheat, corn, cotton, and rice, placed limits on plantings.

Highly restrictive production and acreage control programs of the past served two purposes. The primary purpose was to help balance supply and demand. The secondary purpose was to reduce Government payments and limit the amount of acreage eligible for payment.

In the United States, interest in market liberalization and obligations under multilateral trade agreements have prompted policy makers to design and implement less distorting Government programs. Beginning with the 1985 farm bill, acreage limitations have gradually been eliminated and replaced by increased planting flexibility for farmers.

The most sweeping changes were introduced in the 1996 and 2002 farm bills. Partially decoupled payments—originally called production flexibility contract payments in the 1996 farm bill—were per acre payments based on historical plantings of program crops and yields rather than on current market prices or current production levels of the crops.

The 1996 farm bill provided producers with almost complete planting flexibility. Producers no longer were required to plant within restrictive and rigid Government regulations. They no longer had to produce a specific crop to receive program benefits and were able to make planting decisions based on market signals and what was in their best economic interest.

The 1996 farm bill singled out fruits and vegetables (FAV) as the exception to planting flexibility rules. Acreage enrolled in certain major commodity programs could not be planted in fruits and vegetables without forfeiting Government assistance. The 2002 farm bill continued the restriction of planting fruits and vegetables. However, the 2002 farm bill and the 2004 Tobacco Reform Act did eliminate the tobacco and peanut supply control programs through Government buy-outs.

General Opinions Expressed

- No clear consensus was expressed on the issue of whether to allow the planting of fruits, vegetables, or wild rice on acres enrolled in a farm program. Some supported the removal of any restrictions and indicated that farmers should not be restricted and that they should be able to produce a commodity they can sell. Others supported restrictions to help specialty crop producers compete.
- There was general support for planting flexibilities and opposition to efforts to limit available marketing options.
- The free market environment and the flexibility to decide what to produce for an income was supported.
- Some producers supported an acreage-control-type program to lower production to support higher prices.

Detailed Suggestions Expressed

- Find a way to make it easier for the farmers to take advantage of farm program funding by reducing the number of acres necessary to set aside or by some way of reducing the matching grant requirement.
- To enhance and stabilize farm prices, we must curtail production. Farmers should idle 25 percent of the farm acres when prices are projected to fall below a certain level in a given year.
- The planting flexibility requirements provided in the 1996 farm bill are working and should not be done away with in the next farm bill.
- Support Farm Flex that would exempt the FAV restrictions for fruit and vegetables that are grown for processing.
- Oppose Government supply management programs.
- Many landowners lost base acreage in recalculation of acres in the 2002 farm bill. FAV restrictions prevent farmers from renting land for FAV production.
- Specialty crop grant money in 2001 was divided up and has impacted FAV production markets in various States.
- Price will solve the problem of not having to worry about production controls.
- Push farmers to a market-oriented production model.
- The present law affecting program crops disallows the planting of FAV or wild rice on base acres of a participating farm. Recommend that sugar crops also be excluded to prevent the unfair economic advantage to sugar producers that also grow program crops.
- Look to the food pyramid as a guideline of U.S. agricultural production needs and production controls.
- Moderate crop acreage reductions as a condition of eligibility for commodity payments are needed to help reduce crop surpluses.
- Reestablish a farmer-owned reserve program for grain and oilseed crops.
- Create policies to prevent producers from growing crops on farmland on which they have not developed updated irrigation technologies in order to save water.
- Landlords are reluctant to rent land to processed vegetable growers because it will hurt their base calculations in the future.

- Remedy the restrictions by allowing farmers to opt out of the Federal farm program on a yearly basis to raise FAV for processing without penalizing them on those acres.
- FAV history should be handed down from parent to child or family member.
- The new farm bill should have acreage controls coupled with a nonrecourse loan program in order to set it at a rate above the cost of production plus a fair profit. If no acreage allotment, then no crop.
- In the next farm bill, some form of reshaped land set-aside program or production controls, coupled with Government reserves, should be considered.
- The 2002 farm bill placed restrictions on growing fruits and vegetables on crop base acres. In the absence of a history of growing fruits and vegetables, a producer is unable to diversify his or her farming operation. If fruits and vegetable crops are grown under the DCP without a history, a payment reduction is realized. These restrictions should be eliminated under the 2007 farm bill.