United States Department of Agriculture

Dear Chairmen and Ranking Members:

I am pleased to share with you the U.S. Department of Agriculture's 2007 farm bill proposals. I am especially pleased to report that these proposals are constructed from the ideas and information conveyed to us by the very people who are most affected by farm policy.

As President Bush said in his message to farmers and ranchers during our Farm Bill Forums, "The farm bill is important legislation that meets real needs. The next farm bill should further strengthen the farm economy and preserve this way of life for farmers and ranchers of the future. Hearing your advice is an important step towards meeting these goals." The President and I are grateful to all of the farmers, ranchers and other stakeholders who attended our Farm Bill Forums or submitted comments to us.

Our 52 forums, conducted in 48 States, provided the foundation for our work. The 4,000 comments we received were categorized into 41 summary papers. As themes emerged, we put our economists, led by our Chief Economist Keith Collins, to work providing history, facts and alternatives in five analysis papers. We have publicly shared the results of all of this work, every step of the way, to maintain a transparent process—as should be the case when important policy is developed.

My hope is that our more than 65 proposals will become the building blocks for a new farm bill that is more equitable, predictable and better able to withstand challenge. These proposals strengthen existing priorities and bring focus to emerging priorities. Several of the priorities have dedicated titles in the current Farm Bill, and our proposals are outlined accordingly. Other priorities, including more equitable support of specialty crops and a greater commitment to beginning and socially disadvantaged producers, are represented in an array of proposals listed under several titles and summarized in sections 11, 12, and 13.

It is a tremendous honor to serve as the Secretary of Agriculture at this important time in history. I could not be more optimistic about the future of American agriculture. The balance sheet has never been stronger, the technological advances never more impressive, and the potential for a rural renaissance never greater. For these reasons, I take very seriously the responsibility that lies before us.

I look forward to working with the 110th Congress to craft new farm policy. I approach this discussion firmly believing that Federal support of agriculture is a wise investment and that how we provide that support is immensely important. These proposals recognize the dramatic changes in agriculture since 2002 and present policy ideas that are reform-minded and fiscally responsible and that provide strong support of agriculture in a global economy.

Sincerely,

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Secretary

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TITLE I
COMMODITY PROGRAMS

SUMMARY OF COMMODITY TITLE REFORM

Recommendations In Brief

Reform farm policy to make it more market-oriented, more predictable, less market distorting and better able to withstand challenge.

Problem

Loan deficiency payments and counter-cyclical payments are designed to provide producers a safety net. However, under the 2002 farm bill, loan deficiency and counter-cyclical payments were largest during years of record-breaking harvests and record farm income. Yet in these same years, natural disasters that caused complete crop loss often left some producers with little safety net whatsoever. John from Kansas described during a USDA Farm Bill Forum how he ended up with no support under the current system. He said, “We didn't raise anything because of the drought. Prices went up and we didn't get any payment. We didn't have anything to sell.” The current price-based programs tend to “under-compensate when yields decline and over-compensate when yields increase.”

Additionally, these payments are being scrutinized by some trading partners who believe they are trade-distorting. In fact, some farm bill programs have already been found noncompliant with international obligations. Further, the U.S. classification of some payments as non-trade distorting (“green box”) is being questioned. With the expiration of the peace clause in the Uruguay Round Agreement, under which domestic support measures were generally, but not fully, protected from challenge, international competitors have already begun to challenge other U.S. commodity programs.

The 2002 farm bill set loan rates at fixed levels significantly above market prices year after year for many crops. Some claim that these high loan rates encourage farmers to plant more of these crops - further increasing supply and thus decreasing prices. These payments can also encourage attempts to produce crops in environmentally-sensitive, drought-prone lands. Furthermore, farmers can take advantage of short-term market events (such as an export terminal closing due to a hurricane) to lock-in artificially high loan deficiency payments, while actually selling the commodity later at prices well above the loan rate. This allows the market price received, combined with the loan deficiency payment, to far exceed the intended loan rate protection.

Payment limits and the Adjusted Gross Income cap have affected few producers. Only nine percent of all farms collect 54 percent of all government commodity payments. The complexity of the law allows virtually unlimited payments to the nation’s largest and most wealthy farms. During Farm Bill Forums, producers spoke often about these wealthier farms inflating cash rental rates and outbidding their neighbors for farm real estate. The nation’s tax policy coupled with these unlimited government payments have contributed to the surge in high land values and high rental rates. As a result, it is more difficult for beginning farmers to get started and for small-l and medium-sized farmers to compete.

During USDA Farm Bill Forums, opinions varied about the commodity title, but many were calling for a change from business as usual. For example, Jeremy from South Dakota wrote, “Subsidies drive up prices all along the production chain, from land to equipment to labor prices…Let free market principles determine the price of a combine, not commodity subsidies." And Mary, from Vermont wrote, "Congress needs to enact (and USDA needs to implement) effective payment limitations on the commodity program so that mega farms are not allowed to drive their neighbors off the land and raise land rental/sale values beyond reachable limits for beginning farmers."

Recommended Solution

The Administration is recommending reforms to Title I – entitled "Commodity Programs." Following is a list of the major components of the commodity title package.

1. Establish market-based loan rates at 85 percent of the 5-year Olympic average with maximum loan rates as established in the House-passed version of the 2002 farm bill. (For further information, see the proposal entitled "Revise Marketing Assistance Loans" on pages 9 – 11.)
2. Replace the current daily posted county prices (PCPs) used for determining loan deficiency payment (LDP) rates and repayment rates for marketing assistance loans with a monthly PCP for each crop. Revise requirements for establishing a producer's LDP and loan repayment rate to be based on the month that beneficial interest is lost. (For further information, see the proposal entitled "Revise Posted County Prices for the Marketing Assistance Loan Program" on pages 12 – 13.)
3. Increase overall direct payments and to provide additional income support in the 2010-2012 crop years. Continue direct payment acres at 85 percent of base acres, and do not update program payment bases and yields. This proposal would pay farmers an additional $5.5 billion over ten years. (For further information, see the proposal entitled "Increase Direct Payments" on pages 14 – 15.)
4. Further increase the direct payments to beginning farmers during their first five years of operation. These enhanced direct payments will invest $250 million in the next generation of production agriculture over ten years. (For further information, see the proposal entitled "Increase Direct Payments for Beginning Farmers" on pages 16 – 17.)
5. Create a counter-cyclical program that is more responsive to actual conditions by replacing current price-based payments with revenue-based payments for program crops. (For further information, see the proposal entitled "Revenue-Based Counter-Cyclical Payment" on pages 18 – 20.)
6. Reform farm program payment limits, eligibility requirements, and attribution to reduce payments going to larger and higher income producers, increasing overall equity in farm programs. (For further information, see the proposal entitled "Strengthen Payment and Eligibility Limits" on pages 21 – 23.)
7. Eliminate commodity program payments for all newly purchased land benefiting from a 1031 tax exchange. (For further information, see the proposal entitled "Section 1031 Exchanges" on pages 24 – 25.)
8. Continue to support the price of milk at $9.90 per cwt, and re-authorize and revise the Milk Income Loss Contract Program (MILC). MILC payments would be based on a reduced and historical payment rate, instead of actual, milk sales. These proposals are estimated to add $793 million in additional dairy payments over a ten year period. (For further information, see the proposal entitled "Revise Dairy Counter-Cyclical Payments and Continue Price Support Program for Milk" on pages 26 – 27.)

9. Revise the sugar program to operate at no net cost to taxpayers by balancing supply and demand for sugar through domestic marketing allotments and the tariff rate quota on sugar imports. (For further information, see the proposal entitled “Sugar Policy” on pages 28 – 29.)
10. In addition to the action already taken by the Congress to repeal Step 2 of the cotton program, repeal Steps 1 and 3 of the upland cotton competitiveness provision. Eliminate the competitiveness provisions for extra-long staple (ELS) cotton. (For further information, see the proposal entitled “Repeal Special Cotton Competitiveness Provisions” on pages 30 – 31.)
11. Allow planting flexibility of fruits, vegetables, and wild rice on base acres. (For further information, see the proposal entitled “Remove Planting Flexibility Limitations” on pages 32 – 33.)
12. Reduce or eliminate crop bases when an entire farm or a portion of a farm is sold for non-agricultural uses. (For further information, see the proposal entitled “Retire Crop Bases When Cropland Is Sold for Non-Agricultural Uses” on pages 34 – 35.)
13. Offer program crop producers a “conservation enhanced payment option” that enables them to elect to receive an enhanced, guaranteed direct payment if they agree to meet certain conservation requirements and forgo marketing assistance loan program benefits and counter-cyclical program payments. This new program is expected to pay farmers an additional $50 million over the next ten years. (For further information, see the proposal entitled “Conservation Enhanced Payment Option” on pages 36 – 37.)
14. Update Section 1601(e) of the 2002 farm bill entitled “Adjustment Authority Related to the Uruguay Round Compliance” to allow USDA to adjust certain payments to meet current and future WTO commitments. (For further information, see the proposal entitled “Continuing WTO Compliance” on pages 38 – 39.)

REVISE MARKETING ASSISTANCE LOANS

Recommendation In Brief

Establish market-based loan rates at 85 percent of the 5-year Olympic average with maximum loan rates as established in the House-passed version of the 2002 farm bill.

Problem

Loan rates guarantee farmers a "safety net" per unit of covered commodities. However, producers have used marketing strategies to receive large loan deficiency payments at harvest even when they sell their crop later in the year at market prices well above the safety net price. This unintended consequence allows some producers to lock in lucrative payments from the government, even when they actually sell their commodity at levels well above the safety net price prescribed in the 2002 farm bill.

Under the 2002 farm bill, loan rates are fixed for the 2002-2007 crops. As a result, loan rates for some commodities have been established at levels well above market prices year after year. Most claim these fixed loan rates create incentives for producers to plant one crop over another simply because relative loan rates may not reflect the trends in market prices. Most also claim a loan rate in excess of the market price for a crop encourages producers to plant more acreage to that crop, subsequently lowering the crop's market price and increasing marketing assistance loan outlays even further.

The benefits of the marketing assistance loan program are considered trade distorting and count against the product-specific domestic support under the Aggregate Measurement of Support (AMS) calculation under World Trade Organization (WTO) guidelines.

During USDA's Farm Bill Forums, producers repeatedly called for greater protection from trade challenges. Rusty in Georgia said, "If we're going to play in this free trade game and continue to support our farmers, then we need to trade-proof our programs." Others discussed unintended consequences of some support programs. Jessica of Arkansas said, "Due to these price supports, one of the unintended consequences…has been the artificially inflated cost of land which could cause young farmers to be discouraged from going into the farming business."

Recommended Solution

To minimize these market distortions and unintended consequences, the Administration recommends a more market-based solution for determining loan rates. All loan rates for commodity crops would be set at the lesser of:

1. 85 percent of the 5-year Olympic average (average of last five years price excluding the high year and the low year).
2. The loan rate levels established in the House-passed version of the 2002 farm bill (no loan rates were set for pulse crops, thus, the loan rates in current law are used to establish a maximum loan rate level for these three commodities).

Commodity	Units	Current	Average of Proposed Loan Rates over 2008-2012 1/	Proposed Maximum
Wheat	$\bu	2.75	2.58	2.58
Corn	$\bu	1.95	1.89	1.89
Sorghum	$\bu	1.95	1.89	1.89
Barley	$\bu	1.85	1.70	1.70
Oats	$\bu	1.33	1.21	1.21
Upland Cotton	$\lb.	0.52	0.4570	0.5192
ELS Cotton	$\lb	0.7977	0.7965	0.7965
Rice	$\cwt	6.50	6.50	6.50
Soybeans	$\bu	5.00	4.92	4.92
Other Oilseeds	$\lb	0.093	0.087	0.087
Peanuts	$\ton	355	336	350
Dry Peas	$\cwt	6.22	5.08	6.22
Lentils	$\cwt	11.72	10.45	11.72
Small Chickpeas	$\cwt	7.43	7.43	7.43
Graded Wool	$\lb	1.00	0.55	1.00
Nongraded Wool	$\lb	0.40	0.22	0.40
Mohair	$\b	4.20	1.92	4.20
Honey	$\lb	0.60	0.60	0.60

1/ Proposed loan rates are calculated for each year, 2008-2012, using actual and projected market prices and then averaged over the 5-year period.

Background

Marketing assistance loans are made by the Commodity Credit Corporation (CCC) to eligible producers on eligible commodities. They provide interim financing to facilitate the orderly distribution of commodities throughout the marketing year. Instead of selling immediately at harvest, the marketing loan program allows a producer who grows an eligible crop to store the production and pledge the crop as collateral. The loan proceeds help the producer to maintain financial stability without having to sell the harvested crop at the time of year when prices tend to be lowest. Later, when market conditions may be more favorable, a producer can sell the crop and repay the loan. Alternatively, the producer may forgo the loan and receive a loan deficiency payment at any time up to the loan availability deadline. Loan proceeds are based on loan rates set by statute and the quantity of eligible commodity pledged.

Recently, a WTO panel on cotton ruled that Step 2 payments, cotton marketing loans, and cotton counter-cyclical payments together contributed to price suppression in world cotton markets. The United States vigorously defended the programs, but as a result of the adverse ruling, terminated the Step 2 program on August 1, 2006. Brazil has requested permission from the WTO to retaliate against the United States, charging that the two remaining U.S. programs — marketing loans and counter-cyclical payments — continue to suppress world cotton prices. As a result a panel has been established to rule on Brazil’s claims. Preliminary rulings on compliance are expected in 2007.

REVISE POSTED COUNTY PRICES FOR THE MARKETING ASSISTANCE LOAN PROGRAM

Recommendation In Brief

Replace the current daily posted county prices (PCPs) used for determining loan deficiency payment (LDP) rates and repayment rates for marketing assistance loans with a monthly PCP for each crop. Revise requirements for establishing a producer's LDP and loan repayment rate to be based on the month that beneficial interest is lost.

Problem

The current system of using PCPs to determine LDPs and permit loan repayment has enabled producers to receive financing early in the harvest season, avoid forfeitures, and allow commodities to be marketed in response to demand. However, the PCP system suffers from a series of problems. First, calculating 80,000 PCPs daily is a massive undertaking and leads to errors. Because PCPs are designed to reflect local market prices, lack of information on local market conditions can lead to PCPs that do not reflect local conditions and to PCPs that have unwarranted differences from one county to the next. Second, an unusual short-term event may cause a short-term decline in market prices, triggering a large volume of LDP requests at a high LDP rate that may not reflect the longer-term or underlying market conditions. This leads to excessive costs of the marketing loan program. Third, producers may take advantage of short-term price depressions to obtain an LDP and then market the crop later in the year, with the resulting market price plus LDP greatly exceeding the loan rate. In this case, the producer receives total compensation much greater than intended by the loan program.

The unintended levels of compensation were noted in several USDA Farm Bill Forum comments. Ellen from North Dakota said, "As the program exists right now there are in fact no limits on commodity payments that can be received, especially with respect to marketing loan gains."

Recommended Solution

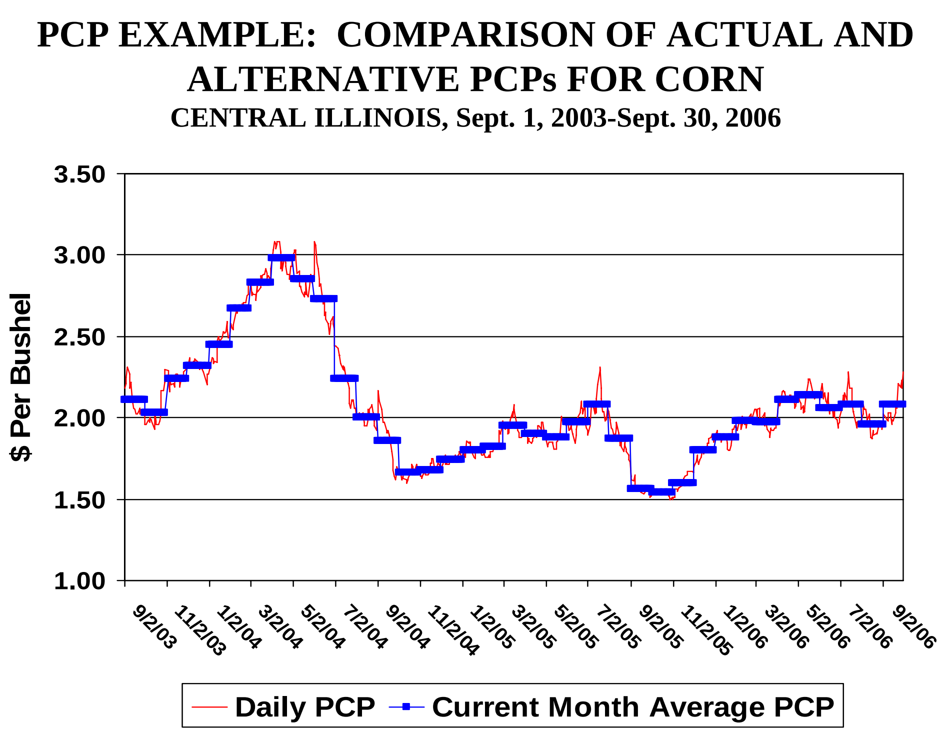
The Administration recommends replacing the daily PCP with a monthly PCP. The monthly PCP would be an average of five daily PCPs on pre-set days during the previous month, excluding the high and low daily PCP. This new system would apply to all covered commodities except upland cotton, rice, wool, mohair, and honey. A producer who elects to forgo a marketing assistance loan and receive an LDP during any month would receive the LDP rate in effect on the day the producer loses beneficial interest in the commodity. The LDP rate would be the difference between the applicable loan rate and the monthly PCP. For a producer who elects to take out a marketing assistance loan, the loan repayment rate would be the loan rate plus interest, unless the producer loses beneficial interest immediately upon repayment of the loan. In that case, the loan would be repaid at the PCP in effect for the month if the PCP is less than the loan rate plus interest. If the loan is carried to maturity, the loan repayment rate would be the PCP in effect during the month the loan matures or during the last month of the commodity marketing year, whichever is earlier. For those producers who do not lose beneficial interest (silage producers, farmer-feeders, etc.), USDA would establish a payment rate for these producers based on the average of the monthly PCPs during the first three months of the marketing year.

Background

Producers may receive a nonrecourse marketing assistance loan for eligible commodities. They may settle their outstanding loan during the loan period by repaying the loan or, upon maturity, by forfeiting the commodity pledged as collateral for the loan to the Commodity Credit Corporation (CCC). A producer may repay the loan at the loan repayment rate which is the applicable county loan rate, plus accrued interest and other charges (per bushel or cwt) or the announced loan repayment rate for the respective commodity. Announced loan repayment rates, or PCPs, are established and available each day based upon the previous day's market prices at appropriate U.S. terminal markets, adjusted to reflect quality and location, for grains and soybeans. Each day, some 80,000 PCPs are announced by USDA. In addition, a producer eligible to obtain a marketing assistance loan may agree to forgo the loan and receive an LDP. The LDP rate equals the amount by which the county loan rate exceeds the announced loan repayment rate for the commodity.

Establishing the LDP rate or the loan repayment rate on the date the producer loses beneficial interest in the commodity would enable the producer to receive the price support provided by the loan rate while limiting excessive LDPs and marketing loan gains. A producer has beneficial interest in the commodity if all of the following remain with the producer: control of the commodity, risk of loss, and title to the commodity.

The following chart is an example of daily versus monthly PCPs:



INCREASE DIRECT PAYMENTS

Recommendation in Brief
Increase overall direct payments and to provide additional income support in the 2010-2012 crop years. Continue direct payment acres at 85 percent of base acres, and do not update program payment bases and yields. This proposal would pay farmers an additional $5.5 billion over ten years.

Problem
While program crop prices are generally expected to remain firm or increase over the next few years, upland cotton is an exception. The combination of increases in upland cotton yields per acre and declining U.S. upland cotton textile production is expected to limit price gains and result in substantial cotton program expenditures, compared to other commodities.

The 2002 farm bill permitted producers to update their program crop base acres and yields. For the purposes of World Trade Organization obligations, updating bases and yields for direct payments would connect them more closely to current production and could jeopardize their "green box" status, causing these payments to be categorized as trade distorting "amber box" assistance.

Recommended Solution
The Administration proposes increased direct payment rates. In addition, the Administration proposes increased direct payment rates for commodities other than upland cotton in the 2010-2012 crop years to reduce the risk of weaker markets, with this increase totaling $1 billion over the three years.

The chart below shows direct payment rates for 2007 under current law compared to USDA's proposed direct payment rates for 2008-2017 crop years:

Crop	Current Law 2007	USDA Proposal 2008-2009 and 2013-2017	USDA Proposal 2010-2012
Corn ($/bu)	0.28	0.28	0.30
Sorghum ($/bu)	0.35	0.35	0.37
Barley ($/bu)	0.24	0.25	0.26
Oats ($/bu)	0.02	0.02	0.03
Wheat ($/bu)	0.52	0.52	0.56
Soybeans ($/bu)	0.44	0.47	0.50
Rice ($/cwt)	2.35	2.35	2.52
Upland Cotton (cents/lb)	6.67	11.08	11.08
Peanuts ($/ton)	36.00	36.00	38.61
Other Oilseeds ($/cwt)	0.80	0.80	0.857

Additionally, to avoid jeopardizing the status of direct payments as non-trade distorting “green box” support, direct payment base acres and yields should not be updated. Payment acres should continue at 85 percent of base acres.

USDA Farm Bill Forums brought forth a diversity of opinions about direct payments. Many producers commented on the benefits of direct payments in the world trade arena. Brian from Minnesota wrote, “I support continuing decoupled payments based upon cropping history rather than current plantings.”

Background

The Direct Payment Program (part of the Direct and Counter-Cyclical Program, or DCP) provides payments to eligible producers on farms enrolled in DCP during the 2002-2007 crop years. Direct payments are computed using the base acres and payment yields established for each farm and are available for barley, corn, grain sorghum, oats, other oilseeds (canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sesame, sunflower seed), peanuts, rice, soybeans, upland cotton, and wheat.

For each commodity, the direct payment for each crop year equals 85 percent of the farm’s base acreage *multiplied by* the farm’s direct payment yield *multiplied by* the direct payment rate. Direct payments are not based on producers’ current production choices, but instead are tied to historical, fixed acreages and yields. Because direct payments provide no incentive to increase production of any particular crop, the payments support farm income without affecting producers’ current production decisions.

For the purposes of reporting payments to the WTO, subsidies are classified into “boxes” that are given the colors green, blue, and amber.

Domestic support measures considered to distort production and trade fall into the “amber” box. These include measures linked to current production and prices. The U.S. amber box limit for product-specific support is $19.1 billion per year.

The “blue box” contains conditions designed to reduce distortion. Any support that would normally be in the amber box, but also requires farmers to limit production, can be placed in the blue box. There are currently no limits on spending on “blue box” subsidies.

“Green box” programs include farmer support that is not related to current production levels or prices. Examples include direct payments and qualifying research, environmental protection and rural development programs. “Green box” subsidies are therefore allowed without limits.

The 2002 farm bill permitted producers to update their program crop base acres and permitted updating of payment yields for counter-cyclical payments, if bases were updated. Payment yields for direct payments were not allowed to be updated.

INCREASE DIRECT PAYMENT FOR BEGINNING FARMERS

Recommendation in Brief

Further increase the direct payments to beginning farmers during their first five years of operation. These enhanced direct payments will invest $250 million in the next generation of production agriculture over ten years.

Problem

Beginning farmers and ranchers face barriers to entering production agriculture. Farming is a high-cost business and a significant percentage of these costs must be invested up-front as a new producer is getting started. Land values and rental rates in the major program crop regions have significantly increased. National average farmland values have increased 65 percent in the past five years, from $1,150 per acre in 2001 to $1,900 per acre in 2006. Average cropland rental rates increased from $71 per acre in 2001 to $79 per acre in 2006, or 11 percent over the same period.

The amount and cost of equipment, including planting, cultivation and harvest machinery, exemplifies the financial barriers to entering production agriculture. The price of a representative front-wheel-assist 250 horsepower tractor ranges from $180,000 to $200,000. Harvest equipment may be even more expensive, with a standard combine often costing more than $200,000. Lease costs are substantial as well.

This issue was raised repeatedly during USDA’s Farm Bill Forums. Comments made by Cameron, of Ohio, represent the comments of many stakeholders. He said, “It is almost impossible for a young person to get started in farming. The current program does not do enough to help the younger farmer get established but almost hurts him because of the competition from larger established farmers and the government payments they receive.”

Recommended Solution

To better prepare beginning farmers to face the initial financial burdens associated with entering production agriculture, the Administration recommends that beginning farmers receive an increased direct payment rate. The direct payment rate for beginning farmers should be determined by multiplying the covered commodity direct payment rate by 1.20. After the initial five years, the producer would no longer be eligible for a higher direct payment rate.

Vince, from Montana, is among the producers who strongly encouraged the department to expand support for beginning farmers. Vince specifically lauded direct payments. He wrote, “Because I am a beginning farmer, I was able to acquire a FSA guarantee on my farm's land loan. It is the direct payment in the current farm program that provides the stability I require for my budget and cash flow projections…When projecting my next year's budget, the direct payment is the only number I have been able to guarantee as fixed income. Without it, my land payment would be at risk.”

Background

The Direct Payment Program (part of the Direct and Counter Cyclical Program, or DCP) provides payments to eligible producers on farms enrolled for the 2002 through 2007 crop years. Direct payments are computed using the payment rates in statute and the base acres and payment yields established for each farm. Direct payments are available for barley, corn, grain sorghum, oats, and other oilseeds (canola, crambe, flax, mustard, rapeseed, safflower, sesame and sunflower seeds), peanuts, rice, soybeans, upland cotton, and wheat.

For each commodity, the direct payment for each crop year equals 85 percent of the farm's base acreage *multiplied by* the farm's direct payment yield *multiplied by* the direct payment rate. Direct payments are not based on producers' current production choices, but instead are tied to historical, fixed acreages and yields. Because direct payments provide no incentive to increase production of any particular crop, the payments support farm income without affecting producers' current production decisions.

REVENUE-BASED COUNTER-CYCLICAL PAYMENT

Recommendations In Brief

Create a counter-cyclical program that is more responsive to actual conditions by replacing current price-based payments with revenue-based payments for program crops.

Problem

Current price-based counter-cyclical payments are based on fixed program payment yields and acreages. Thus when market prices drop below the level that triggers a counter-cyclical payment, payments are made regardless of the level of yields. By failing to take into account actual production per acre, current counter-cyclical payments tend to under-compensate producers when yields decline and over-compensate producers when yields increase.

During USDA Farm Bill Forums, the idea of counter-cyclical payments based on revenue was repeatedly echoed. Ernie from Nebraska said, “Too often our farm policy focus is only on prices. The focus, we feel, should really be on revenue which takes into account both prices and yields… [The current farm bill] tends to overcompensate when it should not and under-compensate when more assistance is needed.” John from Kansas said, “We didn't raise anything because of a drought. The prices went up and we didn't get any payment; we didn't have anything to sell. A target revenue program would fix that."

In 2004-2005, historically high yields for corn and cotton drove supplies up and consequently prices down, triggering counter-cyclical payments for both crops. While prices were down, bushels and pounds sold by farmers were up, yielding unexpectedly high market revenues. Nonetheless, the counter-cyclical payment formula under the 2002 farm bill paid additional money to producers who were already experiencing above average revenues. Conversely, if a farmer is experiencing a drought and yields are low, commodity prices are often above the counter-cyclical price trigger. If producers have few or no commodities to sell at the high price, their farm revenue suffers, yet because the market price is above the counter-cyclical price trigger producers receive no payments. In cases such as these, unexpected market conditions yield unintended consequences.

Recommended Solution

Replace the current price-based counter-cyclical payment program for a commodity with revenue-based counter-cyclical payments for that commodity. The revenue-based payment for a commodity would be triggered when the actual national revenue per acre for the commodity is less than the national target revenue per acre.

The national target revenue per acre for the commodity would equal the 2002 farm bill’s target price minus the 2002 farm bill’s direct payment rate multiplied by the national average yield for the commodity during the 2002-2006 crop years, excluding the high and the low years. The national actual revenue per acre for a commodity would equal the national average yield for the commodity times the higher of: (1) the season-average market price and (2) the loan rate for the commodity.

If a payment is triggered, the national revenue-based payment per acre would be converted to a payment rate for producers by dividing the national revenue payment per acre by the U.S. average payment yield per base acre under the 2002 farm bill countercyclical payment program. An individual producer's revenue-based counter-cyclical payments would be determined by multiplying the national average payment rate for the commodity times 85 percent of the producer's base acres times the producer's program payment yield under the 2002 farm bill countercyclical payment program.

Base acres and program payment yields would remain fixed over the life of the 2007 farm bill. The national yield for determining target revenue would remain fixed over the life of the 2007 farm bill and would equal the average yield for the 2002-2006 crops, excluding the high and the low year.

Background

Price-based counter-cyclical payments established under the 2002 farm bill are triggered when the effective price for a covered commodity falls below the target price for the commodity. The effective price is the sum of: (1) the higher of the season-average market price or the national average loan rate for the commodity and (2) the direct payment rate for the commodity. Since current counter-cyclical payments are not directly tied to actual yields, they may over-or-under compensate producers for annual fluctuations in market revenue. For example, when yields are above trend, causing market prices to decline, current counter-cyclical payments can over-compensate producers since higher yields offset some revenue lost from lower market prices. The opposite occurs when yields are below trend. In this situation, lower production can cause market prices to increase and counter-cyclical payments to decline – even to zero. However, because revenue per acre may change only slightly or even decrease as a result of declining yields per acre, revenue-based payments would be more responsive to actual conditions.

The following page provides examples of how the program would operate in a hypothetical year for corn.

Price-Based Versus Revenue-Based Payments: Price and Revenue Guarantees

U.S. Data	Current Price-Based	U.S. Data	Recommended Revenue-Based
Target Price	$2.63/bu.	**Target Price**	$2.63/bu.
Direct Payment	$0.28/bu.	**Direct Payment**	$0.28/bu.
Price Guarantee	$2.35/bu.	**Difference**	$2.35/bu.
Program Yield (bu./ac.)	114.3 bu./ac.	**Olympic Average Yield (2002-2006)**	146.4 bu./ac.
		Target Revenue	344.04

Price-Based Versus Revenue-Based Payments: Payment Calculation
Example # 1—Higher Yield, Lower Price

U.S. Data	Assume Actual Price=$2.00/bu.; Yield=170.0/bu.; Revenue=$340.00/ac.	
	Price-Based	**Revenue-Based**
Price-Based Payment Rate Per Bushel (1)	$0.35	--
Program Yield	114.3 (bu./ac.)	114.3 (bu./ac.)
Revenue-Based Payment Per Acre (2)	--	$4.04
Payment Rate Per Bushel (3)	--	$0.035

(1) $0.035 = $2.35 - $2.00
(2) $4.04 = $344.04 - $340.00
(3) $0.035 = $4.04/114.3

Price-Based Versus Revenue-Based Payments: Payment Calculation
Example # 2—Lower Yield, Higher Price

U.S. Data	Assume Actual Price=$2.30/bu.; Yield=130.0/ac.; Revenue $299.00/ac.	
	Price-Based	**Revenue-Based**
Price-Based Payment Rate Per Bushel (1)	$0.05	--
Program Yield	114.3 bu./ac.	114.3 bu./ac.
Revenue-Based Payment Per Acre (2)	--	$45.04
Payment Rate Per Bushel (3)	--	$0.394

(1) $0.05 = $2.35 - $2.30
(2) $45.04 = $344.04 - $299.00
(3) $0.394 = $45.04/114.3

STRENGTHEN PAYMENT AND ELIGIBILITY LIMITS

Recommendation in Brief
Reform farm program payment limits, eligibility requirements, and attribution to reduce payments going to larger and higher income producers, increasing overall equity in farm programs.

Problem
Farm program payments account for a sizeable share of farm income for producers of program crops. Generally, the effect of payment limits has been limited because producers have been able to use various legal and regulatory provisions to avoid being restricted by these limits. The Commission on the Application of Payment Limitations for Agriculture authorized in the 2002 farm bill found the "limits on marketing loan benefits are not effective, only a small percentage of program crop producers reach the current limits on direct and counter-cyclical payments, and many of the largest farms have either restructured or are likely to do so to lessen the extent to which the limits reduce payments."

With only limited constraints on payments, a substantial portion of payments go to large, high income producers. In 2005, commercial farms (defined as a farm with sales of $250,000 or more, where the principal occupation of the operator is farming) accounted for nine percent of all farms but received 54 percent of all government payments, averaging $54,100 per farm. These farms had average household incomes of $200,000. Farms where the principal occupation of the operator was farming and with sales up to $250,000 (intermediate farms) accounted for 23 percent of farms and received 27 percent of all payments, averaging $8,700 per farm. These farms had average household incomes of $68,000. The U.S. average household income was $63,344 in 2005. These data indicate most payments go to farm households that have large incomes compared with other farms and with U.S. average household income. Moreover, these large payments are likely to provide a means and incentive for the "big to get bigger" and outbid their neighbors in purchasing and renting farmland.

The problem was highlighted in the comments offered during many Farm Bill Forums. Kristina from Virginia said, "Farm bill policies are supposed to preserve family farms, but they disproportionately channel money to big agribusiness." Steve from Georgia said, "These people drawing these multiple payments are in competition against us… They… keep getting bigger every year. The number of farmers drops every year. There's going to be fewer and fewer farmers, and there won't be such a thing as a family farm."

Recommended Solution
The Administration proposes increasing the effectiveness of farm bill payment limits and helping assure equity among farmers.

1. Decrease the Adjusted Gross Income (AGI) eligibility cap for all farm commodity program payments from the current $2.5 million to $200,000 annually. Continue current law AGI requirements and payment limits on all conservation title payments.

2. Repeal the current provision in law that waives the AGI cap if 75 percent or more of the AGI is derived from farming, ranching, or forestry activities. Thus, if a producer has an annual adjusted gross income of $200,000 or more, regardless of the source of the income, the producer would not be eligible for commodity program payments.
3. Replace the three entity rule with direct attribution of payments, so that all payments are attributed to natural persons directly and through entities that are determined to be actively engaged in agriculture.
4. Maintain the effective overall payment limit of $360,000 but adjust the separate payment limits on specific types of payments – from $80,000 to $110,000 for direct payments, from $130,000 to $110,000 for counter-cyclical payments, and from $150,000 to $140,000 for marketing loan gains.
5. Repeal honey, peanut, wool, and mohair program-specific payment limits (i.e., establish one comprehensive payment limit per person for all commodity program payments including dairy, not one limit for one set of commodity payments and another limit for other commodity payments).
6. Issue new rules that strengthen the now difficult-to-measure requirements for the active management contribution to the operation that enables individuals or entities to qualify for commodity program payments without contributing labor to the operation. Landowners who contribute land to an operation and receive rent in the form of a share of production of a program commodity produced on the land would continue to be considered actively engaged in agriculture and eligible for program payments.
7. Issue rules to institute new procedures to validate producer AGI and eligibility for payments to help ensure no erroneous payments are made.
8. Establish a de minimis level on the issuance of direct and countercyclical payments. To achieve efficiencies in the distribution of payments, no payment of $10.00 or less would be issued under the direct and countercyclical payment programs. In 2004, USDA made direct payments of $10.00 or less to 27,809 producers. These payments totaled $93,711.

Comments submitted during USDA's Farm Bill Forums offered varying opinions about payment limits. Some spoke passionately about the need for greater equity in distribution. Janet from North Dakota said, "We ask that changes be made in our agricultural support system which will do more than use family farmers as the poster children for ag spending. Put a cap on subsidies and close the loopholes which allow an unfair advantage to a few." Paul from Minnesota said, "You need to do something about a more equitable distribution so that the dollars are not going just to the largest farmers."

Internal Revenue Service (IRS) data for 2004 indicate that 97.7 percent of all American tax filers have an AGI under $200,000 and only one half of one percent of all Americans have an AGI over $500,000. Compared to the $2.5 million AGI cap in current law, less than .0007 percent of all American tax filers have an AGI of over $2.5 million. Put another way, less than seven in every 10,000 American families have an AGI over $2.5 million. Looking at farmers specifically, 2003 IRS data indicate that approximately two million tax filers submitted a Schedule F – reporting a profit or loss from farming. Of these, only 71,800 — 3.6 percent — reported AGI of $200,000 or more. This data also indicates that 4.5 percent of farm program payments (including Conservation Reserve Program Payments) went to the 3.6 percent of Schedule F filers with AGI of $200,000 or more.

Background

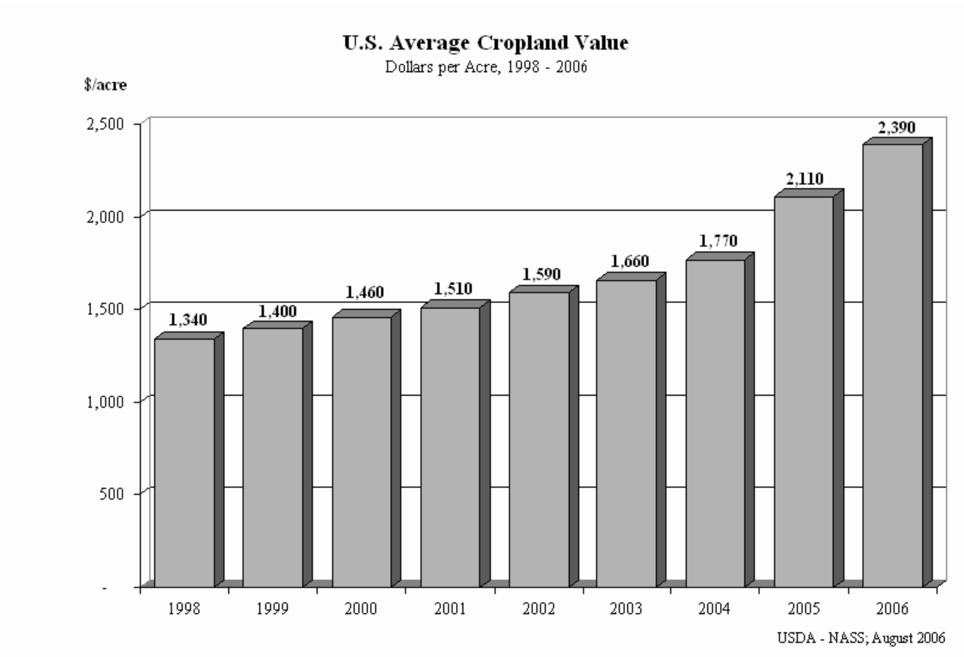
A limitation on the total annual payments that a "person" may receive under certain commodity programs has been in effect since enactment of the Agricultural Act of 1970. Subsequent farm legislation continued payment limitation requirements and added other income limitations. Most notably, the 2002 farm bill added a $2.5 million AGI limitation with respect to these programs. An individual or entity is not eligible for farm program and other payments if the individual’s or entity’s average AGI exceeds $2.5 million for the three tax years immediately preceding the applicable crop, program, or fiscal year. AGI for an individual filing a separate tax return is the amount reported as “adjusted gross income” on the Federal tax return for the individual for the applicable tax year, which includes wages, salaries, dividend and interest income, capital gains, net farm income (gross farm income minus farm expenses including depreciation) and other sources of income. Similar definitions apply to individuals filing joint returns, corporations, partnerships, trusts, etc. However, an individual or entity is considered eligible to receive farm program payments regardless of the level of AGI if 75 percent or more of the average AGI is derived from farming, ranching, or forestry operations. Reducing the AGI cap and repealing the 75 percent exception would reduce the number of high income households receiving farm income support.

Eliminating the three entity rule would allow transparent identification of payments to individuals and would reduce the incentive to create business organizations for reasons other than risk or business considerations.

SECTION 1031 EXCHANGES

Recommendation In Brief
Eliminate commodity program payments for all newly purchased land benefiting from a 1031 tax exchange.

Problem
While many farmers are reporting significant economic hardship, land values have continued to climb. Average farm real estate value increased over 90 percent from $974 per acre in 1998 to $1,900 per acre in 2006. During that same period, the average value of cropland increased almost 80 percent to an average $2,390 per acre.



High land values continue to be a barrier for new farmers who are seeking to enter production agriculture. These high land values are also problematic for small and socially disadvantaged farmers who are seeking to expand their operations.

A reoccurring theme at USDA Farm Bill Forums centered on how individuals near urban areas sold their land and moved to more remote areas where they outbid local farmers for farmland, simply to take advantage of the 1031 tax exchange. For example, Troy, a 26-year-old college graduate in agribusiness from Utah said, “It has always been my dream to be able to someday own my own farm. Currently, I am unable to do so due to the giant barrier of entry which is land values….This is mainly due to speculation of real estate and 1031 exchanges.” Ronald from Minnesota caused a round of applause when he stated “it's the 1031 tax exchange that's killing the young farmer.” And Len from Wisconsin added, “The 1031 is just driving our land rents and land prices to where the average producer, even big producers can't compete.”

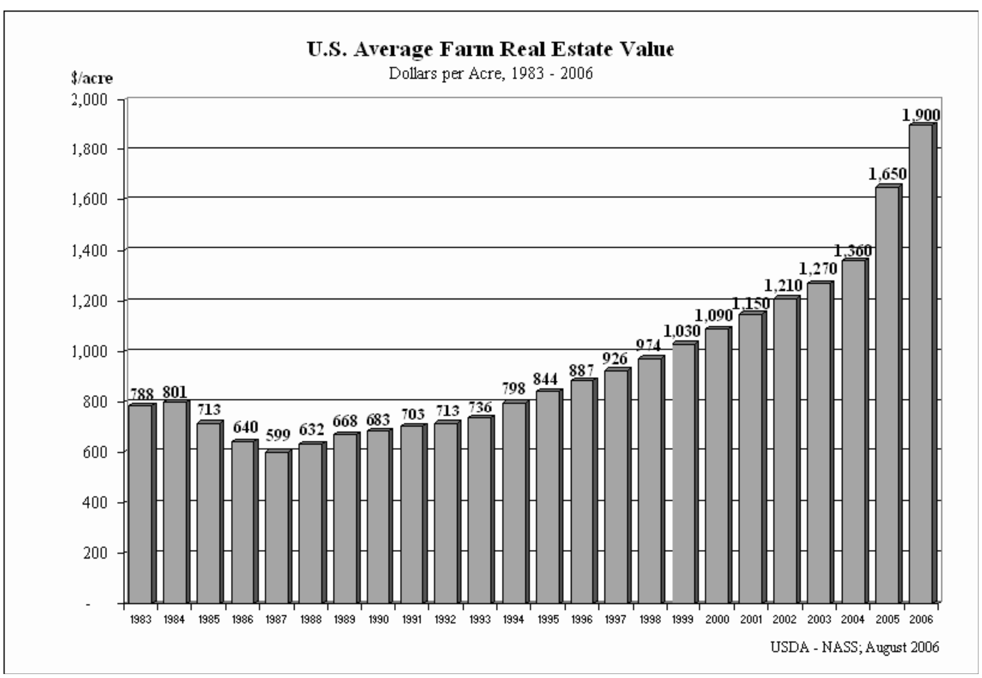
Recommended Solution

To help rectify this situation, USDA proposes to eliminate eligibility for direct payments, counter-cyclical payments and marketing loan benefits on land purchased after the date of enactment of the 2007 farm bill through a 1031 exchange. This policy change will help mitigate an unintended consequence of the tax code by allowing the market, not the tax code, to drive land purchases and prices.

Background

Section 1031 of the U.S. Internal Revenue Code allows investors to defer capital gains taxes on the exchange of like-kind properties. Like-kind (tax-deferred) exchanges, or “1031 tax deferments,” can affect rural farmland values. Under “1031 tax deferments,” landowners selling land at a profit can defer taxes on that profit by using the proceeds to acquire similar property for business or investment purposes. These taxes can be significant because urban expansion has caused a rapid increase in nearby agricultural land values. As farmers, ranchers, and others sell land, usually for nonfarm use, in these urban-affected areas, they may acquire farmland in more rural locations to avoid taxes.

Agricultural land value reflects the future value of agricultural production from that land (measured in current dollars), but also includes factors such as urban development pressures and recreational uses. Agricultural land values rose sharply in the 1970s and early 1980s, declined rapidly between 1982 and 1987, and have risen steadily since 1987.



REVISE DAIRY COUNTER-CYCLICAL PAYMENTS AND CONTINUE PRICE SUPPORT PROGRAM FOR MILK

Recommendation In Brief

Continue to support the price of milk at $9.90 per hundredweight (cwt), and re-authorize and revise the Milk Income Loss Contract Program (MILC). MILC payments would be based on a reduced and historical payment rate, instead of actual milk sales. These proposals are estimated to add $793 million in additional dairy payments over a ten-year period.

Problem

Operation of the milk price support program has helped to provide stability to producers' milk prices. Counter-cyclical payments to dairy producers are triggered under the MILC program when the Class I price in Boston in any month falls below $16.94 per cwt. The MILC program is not consistent with the other farm bill counter-cyclical programs that require payments to be based on historical production levels and an 85 percent payment rate.

Under the 2002 farm bill, authority for the MILC program expired on September 30, 2005. The Deficit Reduction Act of 2005 extended the MILC program authorizing payments through August 31, 2007, but no payments are authorized thereafter. Because the MILC program expires prior to expiration of the 2002 farm bill, the MILC program is not part of the 2007 farm bill baseline spending for FY 2008-2017. Thus, a continuation of the program in the 2007 farm bill would cause farm bill program spending to exceed baseline spending.

During USDA's Farm Bill Forums, dairy farmers from throughout the country let their views be known. For example, Ed from Wisconsin said, "We see the MILC program as an important supplement to the milk price support program, which is also an important part of the dairy income safety net. However, the milk price support program, by itself in its current form, is an insufficient safety net for dairy producers." And Calvin from Florida added, "We support the continuation of this relatively low cost safety net for dairy farmers…With the large investment required of dairy operations and the time frame required to enter dairy farming it is imperative that a floor be kept on dairy prices to maintain an adequate milk supply. The dairy price support program is a win-win for producers, processors, and consumers."

Recommended Solution

The Administration proposes to maintain the milk price support program and extend the MILC program. Under the proposed MILC program, dairy producers would continue to be eligible to receive a payment if the Class I price in Boston in any month falls below $16.94 per cwt. For FY 2008, the proposed payment rate would remain at the current rate of 34 percent of the difference between $16.94 per cwt and the Class I price in Boston. For subsequent years, the payment rate would be phased down to 31 percent in FY 2009, 28 percent in FY 2010, 25 percent in FY 2011, 22 percent in FY 2012, and 20 percent in FY 2013-2017.

MILC payments would be based on 85 percent of the 3-year average of milk marketed during fiscal years 2004-06. Payments would be subject to the current quantity-based limit on milk marketed eligible for MILC payments of 2.4 million pounds per year. This policy change would make the MILC program consistent with the other farm bill counter-cyclical programs that are calculated on historical production bases. MILC payments would also count towards a producer's overall counter-cyclical payment limit of $110,000 annually, helping to limit payments to producers with multiple dairy operations. The new adjusted gross income eligibility cap of $200,000 annually would also apply to MILC payments.

Background

The Milk Price Support Program (MPSP) supports the price of milk produced in the 48 contiguous states through the purchase of cheese, butter, and nonfat dry milk (NDM). The current milk price support rate is $9.90 per cwt. for milk testing 3.67 percent butterfat (milk fat). Under the MPSP, farmers are not paid directly but are supported through Federal purchases of dairy products. Purchases vary from year to year depending on the dairy market supply and demand situation and the support rate.

In recent years, the average price received for milk has been well above the support price and only very small amounts of nonfat dry milk, butter and cheese have been removed from the market to support the price of milk. Current projections suggest that the farm-level price of milk will continue to remain considerably above the support price and purchases under the milk price support program will remain small.

Besides MPSP, the MILC program is also available to dairy producers. MILC program payments are made on a monthly basis when the Class I milk price in Boston falls below the benchmark price of $16.94 per cwt. A maximum of 2.4 million pounds of milk marketed by an operation are eligible for MILC payments per fiscal year. MILC program payment rates are currently determined by multiplying 34 percent of the difference between $16.94 and the Boston Class I price for the month. By statute, no payments are authorized under the MILC program after August 31, 2007.

SUGAR POLICY

Recommendation In Brief

Revise the sugar program to operate at no net cost to taxpayers by balancing supply and demand for sugar through domestic marketing allotments and the tariff rate quota (TRQ) on sugar imports.

Problem

The sugar program is a nonrecourse loan program that supports the price of raw cane sugar at 18 cents per pound and refined beet sugar at 22.9 cents per pound. The 2002 farm bill requires the Secretary of Agriculture to establish domestic allotments that result in no forfeitures of sugar to the Commodity Credit Corporation (CCC) under the sugar price support program. However, the 2002 farm bill suspends the requirement when sugar imports for human consumption are expected to exceed 1.532 million short tons, and the imports would lead to a reduction in the overall allotment quantity. The current program limits imports of raw and refined sugar through a TRQ. Under the World Trade Organization (WTO), the United States is subject to minimum access requirements consistent with U.S. obligations.

Because of increased sugar imports expected from Mexico, which, under the NAFTA agreement, is not subject to the TRQ, USDA's current long-term projections indicate imports in excess of 1.532 million short tons, triggering the suspension of domestic marketing allotments during FY 2008-2017. As a result, U.S. sugar supplies are projected to exceed domestic use, and domestic sugar placed under nonrecourse loans would be forfeited to the Commodity Credit Corporation. USDA's projected outlays under the sugar price support program are $1.4 billion during FY 2008-2017.

Recommended Solution

The Administration recommends continuing the sugar price support program but eliminating the provision which requires the Secretary of Agriculture to suspend marketing allotments when sugar imports are projected to exceed 1.532 million short tons. Domestic marketing allotments for sugarcane and sugar beets could be reduced, as needed, to balance sugar supply and demand and prevent price support forfeitures. The sugar program could then continue to be operated at no net cost to taxpayers as it traditionally has in the past.

USDA heard divergent views on U.S. sugar policy. For example, Stephen, from Hawaii wrote, "We strongly urge that a no-cost U.S. sugar policy be retained in the next farm bill." While Stephen, from California, suggested, "A good start would be the end of ridiculous sugar price supports, benefiting the few at the expense of many -- not only all U.S. consumers, who pay artificially high prices for sugar products, but poor cane growers in other nations, who can't compete with our artificially priced products."

Background

The objective of the Administration's proposal would be to continue to maintain domestic sugar prices near historical levels while eliminating the Federal cost of the sugar price support program. On January 1, 2008, full implementation of NAFTA eliminates all customs duties for sweetener trade between Mexico and the United States. Relative costs of production, transportation, and other market factors will determine where sugar crops are grown and processed in the United States and Mexico following elimination of customs duties on sweeteners trade between the two countries. If price supports for raw and refined sugar remain at current levels, U.S. prices would likely attract imports from Mexico. Depending on the volume of imports from Mexico, sugar prices could drop below the forfeiture level resulting in U.S. sugar program costs. USDA currently projects sugar program costs of $1.4 billion during FY 2008-2017, an average of $140 million per year, due to anticipated forfeitures. Under the proposal, the domestic marketing allotment program would be available to reduce domestic sugar supplies and support sugar prices for producers when imports exceed 1.532 million short tons.

Sugar imports from Mexico were 784,000 tons in FY 2006 and are projected at 330,000 tons for FY 2007. Prior to FY 2006, over-quota tariffs restricted imports to about 25,000 tons per year. The over-quota tariff is currently $0.015 per pound, and drops to zero on January 1, 2008.

REPEAL SPECIAL COTTON COMPETITIVENESS PROVISIONS

Recommendation In Brief

In addition to the action already taken by the Congress to repeal Step 2 of the cotton program, repeal Steps 1 and 3 of the upland cotton competitiveness provision. Eliminate the competitiveness provisions for extra-long staple (ELS) cotton.

Problem

In the cotton dispute brought by Brazil, the World Trade Organization (WTO) ruled that Step 2 payments for cotton users and exporters under the 2002 farm bill were prohibited subsidies contingent on exports or on the use of domestic over imported cotton. Congress subsequently repealed the Step 2 payment provisions. Step 2 was part of a set of three competitiveness provisions in the 2002 farm bill. The other two provisions -- a discretionary adjustment in the loan repayment rate and a special import quota -- have seldom been used, have increased program costs when used, and have had little meaning in the absence of Step 2.

The ELS cotton program includes a payment to domestic users and exporters that is analogous to the upland cotton Step 2 program.

Recommended Solution

Repeal Step 1, the discretionary adjustment in the loan repayment rate, and Step 3, the special import quota for upland cotton. Congress has already eliminated the Step 2 program for upland cotton. Steps 1 and 3 remain in law and should be repealed. Repeal the ELS competitiveness payment which is analogous to the Step 2 payment for upland cotton.

Background

The upland cotton program is comprised of a non-recourse marketing assistance loan and a 3-step competitiveness provision. The non-recourse marketing loan allows a producer to:

1. Place cotton under loan for up to 9 months,
2. Receive some money up front, which can be used to pay production expenses, and
3. Wait for an advantageous move in prices to market the cotton.

If subsequent prices do not allow the producer to repay the loan and receive a higher price, then at the end of the 9-month loan the producer can forfeit the cotton as payment in full for the loan. If the producer elects to repay the loan prior to maturity, the producer may repay the loan, at the lower of:

1. The loan rate, plus applicable storage and interest, or
2. An alternative repayment rate, called the adjusted world price (AWP), announced each Thursday.

Step 1 of the 3-step competitiveness provision for upland cotton is a discretionary adjustment to the AWP. The Secretary may, when certain conditions are met, reduce the AWP by an amount not to exceed the difference between the A-Index and the lowest U.S. quotation in Northern

Europe (USNE). The decision concerning the discretionary Step 1 adjustment is based upon several factors including the likelihood of achieving the prevailing export forecast, and the likelihood of forfeiture of loan collateral in the absence of the adjustment. The discretionary reduction has seldom been used, and when used, it increases the cost of the cotton program.

Step 2 of the 3-step competitiveness provision, now repealed, was designed to ensure that U.S. upland cotton could be readily marketed in both the domestic and international market. Step 2 operated when U.S. upland cotton prices were above world prices for a certain period and provided a subsidy to domestic users and exporters in the amount of the difference between the U.S. and world prices.

Step 3 of the 3-step competitiveness provision allows for the opening of a special additional import quota for upland cotton. These quotas permit importation of cotton above that permitted under existing quotas. Step 3 import quotas are triggered when U.S. cotton prices quoted in Northern Europe exceed world prices in Northern Europe for a specified period by more than the Step 2 payment rate. When the Step 2 provision was adopted, there was concern that it could result in exports of domestic supplies and lower prices to foreign buyers. The provision was enacted to provide domestic textile mills access to foreign cotton should U.S. prices rise and supplies tighten due to Step 2. Without Step 2, there is no basis for Step 3.

The ELS program provides payments that are analogous to the Step 2 payments. When U.S. ELS cotton prices are above world prices for a certain period, a payment is made to domestic users and exporters in the amount of the difference between the U.S. and world prices.

REMOVE PLANTING FLEXIBILITY LIMITATIONS

Recommendation in Brief

Allow planting flexibility of fruits, vegetables, and wild rice on base acres.

Problem

Under World Trade Organization (WTO) rules, direct payments can be classified as non-trade-distorting or “green box” support if, among other conditions, they are not “related to, or based on, the type or volume of [current] production” by the recipient. In the Brazil cotton case, the WTO ruled that direct payments provided under the 2002 farm bill could not be classified as “green box” support, because of the limitations on planting flexibility that currently prohibit the planting of fruits, vegetables, and wild rice on base acres eligible for payments. The WTO reasoned that because direct payments are conditioned on the recipients’ avoiding production of certain crops after the base period, they are related to current production and thus do not meet the criteria for decoupled income support as defined in the WTO Agreement on Agriculture.

Although the WTO rulings and recommendations in the cotton dispute were limited to particular claims made by Brazil in that case, the reasoning in *Cotton* would suggest that it is desirable to remove the planting flexibility limitations.

Recommended Solution

To ensure that direct payments will be considered to be non-trade distorting green box assistance, the Administration proposes that the provision of the 2002 farm bill that limits planting flexibility on base acres to exclude fruits, vegetables, and wild rice, should be eliminated.

Background

The 2002 farm bill contained a provision limiting planting flexibility to exclude the planting of fruits, vegetables, and wild rice on base acres. Base acres are used to calculate direct and counter-cyclical payments.

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. These production and acreage control programs have served two purposes. Primarily, they were an attempt to 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 more market-oriented programs and global trade liberalization 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 1996 farm bill provided producers with broad 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 could make planting decisions based on market signals and what was in their best economic interest. The 1996 farm bill singled out fruits and vegetables as the exception to planting flexibility.

The 2002 farm bill continued the exception and added wild rice. Planting fruits, vegetables (other than lentils, mung beans, and dry peas), or wild rice on base acres makes the producer ineligible for direct and counter-cyclical payments. Exceptions include regions with a history of double cropping fruits, vegetables, and wild rice with commodities eligible for direct and counter-cyclical payments, farms with a history of planting fruits, vegetables, and wild rice (with an acre for acre reduction in payments), and producers with a history of planting fruits, vegetables, and wild rice (with an acre for acre reduction in payments).

RETIRE CROP BASES WHEN CROPLAND IS SOLD FOR NON-AGRICULTURAL USES

Recommendation In Brief
Reduce or eliminate crop bases when an entire farm or a portion of a farm is sold for non-agricultural uses.

Problem
There are several situations in which a farmer may sell an entire farm or a portion of a farm with no reduction in crop acreage bases and no reduction in direct and counter-cyclical payments. For instance, a farmer with two farms may sell one of the farms for non-agricultural uses and transfer the crop bases from the farm being sold to the remaining farm. In this instance, the crop bases on the farm being sold may be assigned to the farm being retained if the sum of the crop bases on the two farms is less than total cropland on the farm that is being retained. If a farmer sells a portion of an existing farm, the crop bases on the farm are not reduced unless the sum of the crop acreage bases on the farm exceeds the total cropland on the farm following the sale. In these situations, a producer could sell a major portion or an entire farm for non-agricultural uses with no reduction in direct and counter-cyclical payments. This could permit a producer to continue to receive the same level of direct and counter-cyclical payments even though the remaining cropland on the farm was significantly reduced. Additionally, the retention of crop acreage bases may contribute to the inflation of farmland values, making it harder for beginning and limited resource farmers to purchase land.

Recommended Solution
The Administration proposes to permanently reduce crop acreage bases in proportion to the decline in cropland when a portion of an existing farm is sold for non-agricultural uses. This recommendation also would prohibit reassignment of crop acreage bases to another farm or farms when an entire farm is sold. This proposal is modeled after the mechanism that proportionally reduces program crop base acres when a portion of a farm is enrolled in the Conservation Reserve Program.

Consider a farm with 100 acres of cropland and 60 acres of crop base. Under current law, if that farmer sells 20 acres to development of a subdivision and 20 acres to build a golf course, the farmer would retain the same amount of direct and counter-cyclical payments as before the sale. Under the Administration's proposal, that same farmer would see a proportional reduction in their base acres and a subsequent reduction in direct and counter-cyclical payments. Thus, in this case, the farmer started with 60 base acres and sold 40 percent of the farm to non-agricultural use; the farmer would receive a 40 percent reduction in base (60 acres multiplied by 40 percent equals a 24 acre reduction) and a proportional reduction in direct and counter-cyclical payments of 40 percent.

Background
Under the 2002 Farm Bill, direct and counter-cyclical payments for program crops are determined by multiplying a prescribed payment rate by payment production. Payment production for a program crop equals 85 percent of a farm's base acres times the farm's program

yield. Therefore, the amount of direct and counter-cyclical payments a producer is eligible to receive is directly tied to the program crop base acres on the producer's farming operations. Program crop base acres are determined by land's previous planting history.

CONSERVATION ENHANCED PAYMENT OPTION

Recommendation In Brief

Offer program crop producers a “conservation enhanced payment option” that enables them to elect to receive an enhanced, guaranteed direct payment if they agree to meet certain conservation requirements and forgo marketing assistance loan program benefits and counter-cyclical program payments. This new program is expected to pay farmers an additional $50 million over the next ten years.

Problem

Farm programs may provide incentives for some producers to grow crops even on drought-prone, marginal lands. Intensive production of program crops on marginal lands is counter to natural resource conservation goals. Moreover, a fixed, direct “green” payment, if properly constructed, would meet World Trade Organization (WTO) rules for non-trade distorting support that is exempt from WTO disciplines. Such incentives must be completely decoupled from current production and prices and must have clearly defined eligibility criteria in order to qualify under WTO rules as “green box” decoupled income support.

Recommended Solution

The Administration proposes to offer producers with program crop base acreage a “conservation enhanced payment option” that would allow producers to receive an enhanced direct payment in place of marketing assistance loan program benefits and counter-cyclical payments. The annual direct payment level for farmers choosing this option would be their regular direct payment provided under provisions of the 2007 farm bill plus ten percent of that payment for the duration of the 2007 farm bill. The direct payment limit for farmers choosing this option would be increased by ten percent as well from $110,000 to $121,000 annually.

Producers who choose this option would be required to adopt conservation and environmental practices equivalent to the Progressive Tier (for more information on the Progressive Tier, see proposal entitled “Conservation Security Program” on pages 46-48) requirements under the Conservation Security Program (CSP). Producers would not be required to produce agricultural commodities to receive the direct payment.

Background

Under this recommendation, a producer with crop acreage base could elect to enter a long-term contract covering the life of the 2007 farm bill to forgo benefits of the marketing assistance loan and the counter-cyclical payment programs. The contract would require the producer to meet the conservation requirements of the Progressive Tier under the CSP. Under the Progressive Tier, the producer must address water and soil quality concerns to a sustainable level and agree to address a third resource concern to a sustainable level by the end of the five-year contract. Similar to other conservation compliance requirements, producers would self-certify compliance with the Progressive Tier and would be subject to audit.

The participating producer would receive an annual, fixed, direct payment in lieu of marketing assistance loan program benefits and counter-cyclical payments. In addition, the producer would continue to receive the direct payment now provided under the 2002 farm bill. This direct payment along with the new “conservation enhanced payment option” direct payment would be subject to a payment limit of $121,000 annually. The producer would also be subject to other payment limit changes and adjusted gross income changes recommended for the 2007 farm bill. [See Title I recommendation entitled “Strengthen Payment and Eligibility Limits” on pages 21-23.]

Example conservation enhanced payment rates under this proposal will be as follows (calculated as 1.1 times the proposed direct payment rates and data are rounded):

Commodity	**Proposed Direct Payment Rate 2008-2009 2013-2017**	**Conservation Enhanced Payment Rate 2008-2009 2013-2017**	**Proposed Direct Payment Rate 2010-2012**	**Conservation Enhanced Payment Rate 2010-2012**
Barley (bu.)	$0.25	$0.28	$0.26	$0.29
Corn (bu)	$0.28	$0.31	$0.30	$0.33
Grain Sorghum (bu)	$0.35	$0.39	$0.37	$0.41
Oats (bu)	$0.02	$0.02	$0.03	$0.03
Other Oilseeds (cwt)	$0.80	$0.88	$0.86	$0.95
Peanuts (ton)	$36.00	$39.60	$38.61	$42.47
Rice (cwt)	$2.35	$2.59	$2.52	$2.77
Soybeans (bu)	$0.47	$0.52	$0.50	$0.55
Upland Cotton (lb)	$0.11	$0.12	$0.11	$0.12
Wheat (bu)	$0.52	$0.57	$0.56	$0.62

For each commodity, the direct payment for each crop year equals 85 percent of the farm’s base acreage *times* the farm’s direct payment yield *times* the direct payment rate.

To ensure that the payments are considered non-trade distorting under WTO criteria, the payments should be structured to meet the criteria of decoupled income support. The payments should be fixed and independent of current production and price and the producer should not be required to produce in order to receive the payment.

CONTINUING WTO COMPLIANCE

Recommendation In Brief

Update Section 1601(e) of the 2002 farm bill entitled “Adjustment Authority Related to the Uruguay Round Compliance” to allow USDA to adjust certain payments to meet current and future World Trade Organization (WTO) commitments.

Problem

The 2002 farm bill contains a "circuit breaker" provision that provides the Secretary of Agriculture with the authority to adjust expenditures under certain domestic support programs to ensure that expenditures do not exceed total allowable domestic support limits under the Uruguay Round Agreements. Section 1601(e) of the Act states:

> “If the Secretary determines that expenditures under subtitles A through E that are subject to the total allowable domestic support levels under the Uruguay Round Agreements ... will exceed such allowable levels for any applicable reporting period, *the Secretary shall*, to the maximum extent practicable, *make adjustments* in the amount of such expenditures during that period *to ensure that such expenditures do not exceed such allowable levels*." (emphasis added)

Under Title I, entitled "Commodity Programs,” Subtitles A through E deal with direct and counter-cyclical payments for covered commodities, marketing assistance loans and loan deficiency payments for loan commodities and specific program payments for peanuts, sugar and dairy.

With the potential of a Doha agreement on the horizon, this statutory provision, while a useful tool, has become outdated. Since the current law provision is tied to the Uruguay Round Agreement, USDA would have no mechanism to ensure compliance with a Doha agreement. The ultimate goal is to replace the Uruguay Round Agreements with new agreements that open markets and integrate the global economy through measures such as the reduction or elimination of trade-distorting agricultural subsidies and tariffs. Current law suffers from the defect of being tied directly to the Uruguay Round Agreements, which we hope to supersede with Doha or another such agreement.

Recommended Solution

Section 1601 of the 2002 farm bill should be repealed and the following provision enacted:

> “(e) *Adjustment Authority Related to World Trade Organization Agreements Compliance*.
>
> 1. *Required Determination; Adjustment*. -- If the Secretary determines that expenditures subject to the total allowable domestic support levels under the Uruguay Round Agreements, or any successor agreements, will exceed such allowable levels for any applicable reporting period, the Secretary shall, to the maximum extent practicable, make adjustments in the amount of such expenditures to ensure that such expenditures do not exceed allowable levels.

2. *Successor Agreements*. -- For purposes of this subsection, "Uruguay Round Agreements" shall have the meaning prescribed by Section 2 of the Uruguay Round Agreements Act (19 U.S.C. 3501) and "successor agreements" shall refer to any future agreements concluded under the auspices of the World Trade Organization, duly approved by Congress, and determined by the President to be a successor agreement entered into force."

This proposed provision would permit the circuit breaker provision to be available with respect to any future WTO agreement limits and would not be confined solely to those applicable under the Uruguay Round Agreements.

In addition, the current law circuit breaker ties both the determination of allowable levels of domestic support and the expenditures that may be adjusted solely to those expenditures under subtitles A through E of the 2002 farm bill. Other domestic support measures, however, may be properly included in any calculation of total amber box support. The proposed amendment would accommodate their inclusion for all aspects of the circuit breaker determinations.

Background

In 1994, the member states of the WTO entered into a series of trade agreements known as the Uruguay Round Agreements. With respect to agriculture, the agreements sought to reduce subsidies and other market-distorting practices. Since the Uruguay Round Agreements do not themselves have the force of domestic law in the United States, Congress enacted the Uruguay Round Agreements Act to implement the obligations undertaken by the United States.

The agreements provided rules and disciplines for agricultural trade in three principal areas: market access, export subsidies, and domestic support measures. With respect to domestic support, each country agreed to a maximum amount of trade-distorting domestic support it would provide annually. The Uruguay Round Agreement on Agriculture established criteria to differentiate among policies that distort trade ("amber box measures"), policies that do not distort trade ("green box measures"), and direct payments that meet certain production-limiting requirements ("blue box measures").

Under Uruguay Round Agreements, WTO members are required to limit their annual expenditures on "amber box" measures. Each member nation has a different amber box limit, calculated from a historical basis for that country. With a significant exception for measures qualifying as *de minimis* support, the annual limit for the United States is $19.1 billion. Among U.S. programs, marketing loan gains, counter-cyclical payments, the dairy support program, and sugar policy are examples of "amber box" measures.

Recognizing that, under certain market conditions in a given year, U.S. domestic support programs could result in expenditures greater than the amount permitted under the Uruguay Round Agreements, Congress enacted the so-called "circuit breaker" provision in the 2002 farm bill. This provision provides the Secretary of Agriculture with the authority to adjust expenditures under certain domestic support programs to ensure that expenditures do not exceed total allowable domestic support limits.

TITLE II
CONSERVATION

SUMMARY OF CONSERVATION TITLE REFORM

Recommendations In Brief

Improve and increase funding of USDA conservation programs to better serve farmers, the environment, and all U.S. citizens.

Problem

USDA has multiple conservation programs within several agencies that can often lead to overlap and redundancy. Each of these conservation programs has its own eligibility requirements, regulations, policies, applications, and administrative actions that can lead to confusion and complications for producers seeking help. These inefficiencies result in increased administrative costs, leading to fewer dollars available for producers and fewer environmental benefits.

These disparate conservation programs are sometimes ill-equipped to solve complex agricultural landscape problems. These problems point to a need for streamlining, consolidation, and simplification. John from Maryland noted, "Currently, programs are implemented in a piecemeal fashion with no integration or connection with other programs or activities with similar objectives. We urge better integration and implementation of conservation programs…to ensure the conservation and environmental benefits of these programs can be most effectively realized."

Each program has strengths and administrative flexibilities, but these beneficial attributes are not applied across all relevant programs. Additionally, many of these programs do not have market-based or merit-based funding mechanisms to ensure limited conservation funding is allocated to the highest needs and best uses.

At the same time, the needs of beginning and socially disadvantaged producers are not being fully addressed, and demand for existing conservation programs often outpaces resources available. Tim from Oklahoma mentioned, "The biggest problem has been an under-funding of existing conservation title programs." And Philip, from California said, "A strong conservation title in the 2007 farm bill benefits everyone."

Recommended Solution

The Administration is recommending several changes to Title II of the farm bill – entitled "Conservation." Following is a list of the major components of the package.

1. Consolidate existing programs (Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, Agricultural Management Assistance Program, Forest Land Enhancement Program, Ground and Surface Water Conservation Program, and the Klamath Basin Program) that provide financial assistance to customers through cost-share and incentives for working lands under a newly-designed Environmental Quality Incentives Program (EQIP). Simplify and streamline these activities, reduce redundancies, and produce more cost-effective environmental benefits. Create a new Regional Water Enhancement Program (RWEP) that focuses on cooperative approaches to enhancing water quantity and/or quality on a regional scale, and invest additional resources in the Conservation Innovation Grants program. These important changes to the EQIP program would invest an additional

$4.250 billion. (For further information, see the proposal entitled “Environmental Quality Incentives Program” on pages 43 – 45.)

2. Modify the Conservation Security Program (CSP) to create a stewardship program that emphasizes incentives for implementing higher levels of conservation practices. Expand CSP enrollment from its current 15.5 million acres to an estimated 96.5 million acres over the next 10 years, increasing investment by an additional $500 million funding over the 10 year baseline. (For further information, see the proposal entitled “Conservation Security Program” on pages 46 – 48.)
3. Consolidate three existing easement programs for working lands into one new Private Lands Protection Program to streamline processes, eliminate redundancies, and expand the strengths of each program. Invest an additional $900 million over 10-year baseline in this new easement program. (For further information, see the proposal entitled “Private Lands Protection Program” on pages 49 – 50.)
4. Reauthorize and enhance the Conservation Reserve Program (CRP) to focus on lands that provide the most benefits for environmentally sensitive lands. And in addition, give priority within whole-field enrollment for lands utilized for biomass production for energy. (For further information, see the proposal entitled “Conservation Reserve Program” on pages 51 – 52.)
5. Reauthorize the Wetlands Reserve Program (WRP) and consolidate the floodplain easements program of the Emergency Watershed Program into the WRP. Increase the total enrollment cap to 3.5 million acres, but maintain the fiscal year enrollment goal of 250,000 acres. This increase in acreage equates to an investment of $2.125 billion over ten years. Also introduce popular attributes of other easement programs into WRP. (For further information, see the proposal entitled “Wetlands Reserve Program” on pages 53 – 54.)
6. Expand conservation compliance to include “Sod Saver” to discourage conversion of grassland to crop production. (For further information, see the proposal entitled “Implement ‘Sod Saver’ to Discourage the Conversion of Grassland into Cropland” on pages 55 – 56.)
7. Designate a portion of each conservation program specifically for beginning farmers and ranchers, as well as socially disadvantaged producers. (For further information, see the proposal entitled “Conservation Access for Beginning and Socially Disadvantaged Producers” on pages 57 – 58.)
8. Invest $50 million over ten years to encourage new private sector environmental markets to supplement existing conservation and forestry programs. Introduce market forces into existing conservation programs to provide greater environmental returns from federal and landowner investments in conservation. (For further information, see the proposal entitled “Market-Based Approach to Conservation” on pages 59 – 60.)
9. Repeal Section 1241(d) of the 1985 Food Security Act, the regional equity provision, to allow funding to be allocated based on the highest need and best use of conservation funding. (For further information, see the proposal entitled “Merit-Based Funding Allocation” on page 61.)
10. Consolidate two emergency response programs - the Emergency Watershed Protection (EWP) and the Emergency Conservation Program (ECP) - into a new Emergency Landscape Restoration Program. Provide a one-stop source for landowners who need assistance after a catastrophic event to restore land to its productive state and prevent further land and water impairments. (For further information, see the proposal entitled “Emergency Landscape Restoration Program” on pages 62 – 63.)

ENVIRONMENTAL QUALITY INCENTIVES PROGRAM

Recommendation in Brief

Consolidate existing programs (Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, Agricultural Management Assistance Program, Forest Land Enhancement Program, and Ground and Surface Water Conservation Program, and reauthorize the Klamath Basin Program) that provide financial assistance to customers through cost-share incentives for working lands under a newly-designed Environmental Quality Incentives Program (EQIP). Simplify and streamline these activities, reduce redundancies, and produce more cost-effective environmental benefits. Create a new Regional Water Enhancement Program (RWEP) that focuses on cooperative approaches to enhancing water quantity and/or quality on a regional scale, and invest additional resources in the Conservation Innovation Grants program. These important changes to the EQIP program would invest an additional $4.250 billion.

Problem

Multiple USDA cost-share programs are redundant and overlap. Each of the current programs has specific land and producer eligibility requirements, regulations, policies, applications, and administrative actions that can be confusing and time-consuming to producers. Additionally, multiple, redundant programs result in increased administrative costs, reducing funding available to producers. As we heard from Austin at the Delaware Farm Bill Forum, “there are numerous programs out there. It's hard for landowners to keep them all straight…any way we can work to streamline those and make it easier, I think while it's obvious, it's certainly very important.” The complexity also impacts the program’s ability to assist producers. As we heard from Bill in Nebraska “the process for applying and obtaining EQIP funds remains an obstacle to successfully helping many producers.”

These disparate conservation programs do not always provide the correct combination of treatment needed to resolve complex agricultural landscape problems. Under the current system, the focus is often on an individual resource concern. For example, the Wildlife Habitat Incentives Program (WHIP) only focuses on wildlife habitat while the Ground and Surface Water Conservation Program (GSWC) of EQIP only focuses on water quantity, instead of focusing on what is the best for the ecosystem as a whole.

Additionally, USDA is limited in the area of technology transfer and farmer-to-farmer demonstrations, which could rapidly accelerate adoption of conservation practices. Current programs are achieving results; however, limited mechanisms are available to transfer those results to the general public.

Recommended Solution

The Administration proposes consolidating the existing agricultural conservation cost-share programs to strengthen, streamline, and improve current assistance while increasing the simplicity, accessibility, and understandability of these services. One program would greatly simplify the application process for landowners, which can be especially burdensome for those with multiple land uses on their farms or ranches. Funding for EQIP would be increased by $4.25 billion during FY 2008-2017, a 30 percent increase in mandatory funding.

Additionally, the newly enhanced EQIP would be expanded to a broader cross-section of agricultural producers and private landowners. Eligibility for EQIP cost-share assistance would include the following: cropland (including organically farmed land), grazing lands, agricultural production areas, confined feeding operations, irrigated land, wildlife habitat, native prairie, and private non-industrial forest lands. This broader range of land uses should avoid the need for separate programs under the farm bill to address niche interests.

A more comprehensive program would allow the Department to work with a landowner to address all the resource concerns identified on America's working lands instead of issuing one contract for one environmental solution and a second contract for another environmental fix. This new approach would allow USDA to address more resources on a wider variety of land uses as well as optimize technical assistance funding. The new program would allow for a combination of treatments that effectively target complex agricultural landscape concerns, such as air quality in the San Joaquin Valley, nutrient loading in the Chesapeake Bay, hypoxia in the Gulf of Mexico, or water needs in the Klamath Basin.

The program could be utilized to address major resource concerns such as air quality, water quality and quantity, soil erosion, and wildlife yet still effectively target specific concerns such as controlling invasive species, re-establishing native vegetation, managing non-industrial forestland, stabilizing streambanks, protecting, restoring, developing or enhancing unique habitats, removing barriers that impede migration of certain species, and addressing the needs of threatened and endangered species across ecosystems.

In addition to the traditional EQIP cost-share program, the Administration proposes the creation of a new Regional Water Enhancement Program (RWEP) that focuses on cooperative approaches to enhancing water quantity and/or quality on a regional scale. The RWEP would invest mandatory funding of $175 million to producers annually to address an important missing component in the federal government's conservation delivery system-large-scale, coordinated water conservation projects. This new program would:

- Coordinate and competitively fund large-scale (watershed or irrigation district level) water conservation projects
- Target working agricultural landscapes, including crop, pasture, grazing, and orchard lands
- Focus on one to two key water quantity/quality objectives per area
- Include performance incentives to encourage a high percentage of producer participation in a project area and achieve cooperative conservation outcomes
- Establish interim performance targets that must be achieved in order to renew project funding.

This new program in tandem with multiple conservation tools (including farmland management practices, easement purchases, and ecosystem restoration assistance) would provide flexibility to cooperative conservation partners to achieve improved water quantity and quality goals.

Additionally, a more robust Conservation Innovation Grants (CIG) program, funded at $100 million annually (currently funded at $20 million), would provide opportunities to stimulate the development of innovative practices, accelerate development of market-based models, result in emphasis and creativity in addressing regional resource concerns (i.e., Klamath Basin, Chesapeake Bay, and San Joaquin Valley), and find tools to assist small-scale producers. Grants would be used for technology transfer and farmer-to-farmer workshops and demonstrations of conservation success. These activities will encourage producers to further adopt innovative conservation practices.

Background

The 2002 Farm Bill contains six voluntary conservation cost-share programs, each providing a Federal payment to share in the cost of implementing conservation practices on private land. The current programs provide assistance to eligible producers for specific resource concerns or specific types of land.

EQIP addresses soil, water, air, and related natural resource concerns, with two EQIP components focusing on specific concerns: the GSWC addresses irrigated land; the Klamath Basin program addresses specific concerns to that region of the country; WHIP addresses development of habitat for upland wildlife, wetland wildlife, threatened and endangered species, and fish; the conservation portion of the Agricultural Management Assistance Program addresses risk management activities related to irrigation, grazing lands, and organic growers; and the Forest Land Enhancement Program addresses resource concerns on private forest lands. Each program has a unique regulation, unique programmatic requirements for participation, and unique application, contracting, and payment processes. Programs are implemented through landowners and land users who apply structural, vegetative, and land management practices on eligible lands on a voluntary basis. All of the programs are delivered locally with local producers, producer groups, and other interests having input into the solutions to resource problems.

CIG is a voluntary program to leverage Federal investment to stimulate the development and adoption of innovative conservation approaches and technologies. Under CIG, EQIP funds are used to award competitive grants to non-Federal governmental or non-governmental organizations, Tribes, or individuals. CIG enables the Administration to work with other public and private entities to accelerate technology transfer and adoption of promising technologies and approaches to address some of the Nation's most pressing natural resource concerns. CIG benefits agricultural producers by providing more options for environmental enhancement and compliance with Federal, State, and local regulations.

CONSERVATION SECURITY PROGRAM

Recommendation in Brief

Modify the Conservation Security Program (CSP) to create a stewardship program that emphasizes incentives for implementing higher levels of conservation practices. Expand CSP enrollment from its current 15.5 million acres to an estimated 96.5 million acres over the next 10 years, increasing investment by an additional $500 million funding over the 10 year baseline.

Problem

CSP is complicated for customers and staff. Complaints about its complexity surfaced during the USDA Farm Bill Forums, during recent Congressional farm bill hearings, in correspondence from Members of Congress, and in applicant complaints and appeals. Another problem with the current program is the low level of environmental benefit per dollar invested.

CSP does not have the resources to accept every eligible applicant, despite being viewed by some as an entitlement. The level of funding available for the program has changed six times. At the Farm Bill Forums, Art from Washington State contended, “to only offer this program to certain identified watersheds creates an uneven playing field amongst neighboring farmers.” While Gary in Ohio added, “the CSP must be available to all producers, implemented as a nationwide program that is workable, and adequate funds must be appropriated to make it an effective program.”

An additional concern with the CSP program, as currently structured, is that some of the payments may be taxable and/or considered trade-distorting under World Trade Organization (WTO) guidelines.

Recommended Solution

The Administration proposes reauthorization of CSP with the following adjustments: reduce complexity and increase the level of conservation by moving from three tiers to two; remove base, maintenance, and cost-share payments; provide for ranking of applications; expand the program by increasing funding during FY 2008-2017 to approximately $8.5 billion, $0.5 billion above the budget baseline for the current program; and allow the program to reward the best stewards in the nation. These changes would protect the program from WTO challenges, result in more equity in availability and distribution of the program, and provide a greater environmental return.

A tier of the existing CSP would be eliminated, resulting in a two-tiered system with a Progressive Tier and a Master Tier. This simplification would allow USDA to more easily delineate those who are performing conservation and want to do more, and those who are currently performing at the master conservation level. Combining aspects of current Tier I and Tier II requirements, the Progressive Tier would be available in five year contracts to producers who have addressed water and soil quality concerns to a sustainable level and agree to address a third resource concern to a sustainable level by the end of the contract. Like the current Tier III, the Master Tier would be available in 10 year contracts to producers who have addressed all existing resource concerns to the sustainable level and will undertake additional activities, such as higher levels of conservation treatment, on-farm demonstrations, and field trials.

The enhanced CSP would enroll about 10 percent of the Nation's eligible land, or 96.5 million acres, during the 10 year period FY 2008-2017, compared with 15.5 million acres participating in the program in 2006.

Providing financial assistance for CSP through enhancement payments rewards exceptional conservation efforts and additional activities that provide increased environmental benefits above the normal level required to sustain a natural resource. By removing the base and maintenance payments, the new program eliminates payments that may be taxable and/or considered potentially trade-distorting under WTO criteria. Eliminating the cost-share payments eliminates a redundancy with the Environmental Quality Incentives Program, which also simplifies the program.

The current program prohibits ranking of applicants. As such, it requires a complex process for selecting applications when applications exceed the available funding. By ranking applications the best may be rewarded and technical assistance costs reduced. A simplified two-tier system, with ranking, would allow the program to be offered annually on a broader geographic basis rather than only in a limited number of watersheds. This competition raises the level of conservation practiced nationally and provides additional environmental benefits generated by program participants.

Background

The Conservation Security Program (CSP) is authorized by the Farm Security and Rural Investment Act of 2002. The CSP is a voluntary program that provides financial and technical assistance to producers who advance the conservation and improvement of soil, water, air, energy, plant and animal life on Tribal and private working lands.

The current program, which provides stewardship payments to producers, has increased the level of conservation across the country as producers seek to become eligible for the program. However, statutory changes in the program and a complex structure have hindered its potential.

CSP emphasizes water quality and soil quality as nationally significant resource concerns. Currently, the CSP rewards three levels of conservation treatment. Tier I participants must address water quality and soil quality concerns to the sustainable level *on part of their operation prior to application.* Tier II participants must have addressed water quality and soil quality concerns to the sustainable level *on their entire operation prior to application.* Tier II contract participants must also treat an additional significant resource concern by the end of the contract period. For Tier III, the contract participant must have addressed *all existing resource concerns to the sustainable level on their entire agricultural operation before application*.

USDA currently uses a watershed approach to administer CSP. Watersheds are prioritized based upon a nationally consistent process that uses existing natural resource, environmental quality, and agricultural activity data. Sign-ups for CSP participation are rotated between watersheds on an annual basis. This priority watershed delivery approach has reduced the administrative burden on applicants and minimized the cost of processing a large number of applications that could not be funded.

Technical assistance is available to the participants through USDA or an approved Technical Service Provider. These services include application assistance, conservation stewardship plan development, and conservation application. CSP financial assistance payments include:

- An annual stewardship component for the base level of conservation treatment;
- An annual existing practice component for the maintenance of existing conservation practices;
- An enhancement component for exceptional conservation effort and additional activities that provide increased resource benefits beyond the prescribed level; and
- A one-time new practice component for additional needed practices.

PRIVATE LANDS PROTECTION PROGRAM

Recommendation in Brief

Consolidate three existing easement programs for working lands into one new Private Lands Protection Program to streamline processes, eliminate redundancies, and expand the strengths of each program. Invest an additional $900 million over 10 year baseline in this new easement program.

Problem

USDA has multiple working-lands easement programs with the shared goal of protecting agricultural lands and open spaces. Each has unique land and producer eligibility requirements, regulations, policies, applications, and administrative actions. Multiple programs result in increased administrative costs, which reduce the efficiency of the programs and resources available to expand environmental benefits.

A concern commonly expressed during Farm Bill Forums was articulated by Gordon in Connecticut, who said, "We have some of the best farmland in the world…But, we are rapidly losing it irretrievably to development." Wayne in Missouri added, "the reason grassland is so expensive depends less on the price of cattle than the amount speculators are willing to pay for it to turn it into 10-acre ranchettes and strip malls." While Bruce in Montana noted a consolidated program would provide additional benefits for producers suggesting, "The Wetlands Reserve Program, the Farmland Protection Program, the Grassland Reserve Program might be combined under one umbrella."

Currently, flexibilities and strengths of individual programs are not applied across all easement programs, such as the leveraging of Federal funds with State, local, and private contributions under the Farm and Ranchland Protection Program (FRPP). Additionally, regulatory assurances, such as those provided under the Healthy Forest Reserve Program (HFRP), are not currently available when protecting and restoring native grasslands under the Grasslands Reserve Program (GRP).

Recommended Solution

The Administration proposes consolidating the existing working-lands easement programs (FRPP, GRP, and HFRP) into a new Private Lands Protection Program.

The new easement program would invest an additional $90 million in annual mandatory funding over the current baseline of $97 million. This near-doubled funding commitment would preserve prime and unique cropland, open space, grazing lands, native prairie, floodplains, and associated private non-industrial forest lands. The single program would reduce the variety of standards and regulations that result in increased complexities and add to the length of time to consider applications. The program also would provide mechanisms to support the monitoring necessary to ensure compliance and demonstrate the long-term benefits of the program. The program would provide additional consideration in the ranking process for landowners who provide open access for public recreation on easement lands.

The program would build on the popular attributes of existing programs:

- As with GRP, it would allow for third parties to hold easements while preserving the option for the federal government to hold the easement, as well.
- The new program would incorporate market-based features, such as including landowner contributions and other leveraging opportunities of FRPP as a key feature of the new combined program and a means of gaining the maximum benefit for the investment of taxpayer dollars.
- As with HFRP (and similar to the Wetlands Reserve Program), a key feature of the combined program would involve allowing the landowner to perform restoration of the site.
- As with HFRP, the new program would provide assurances and certainty in compliance with Federal and State regulations using a cooperative conservation approach.

Background

The 2002 farm bill contains two voluntary conservation easement programs for working-lands; each provides a federal payment to secure certain rights desired by the public. While the statutory purposes of each program slightly differs, there is a common theme to each of the programs – protect the Nation's agricultural lands, including its natural resources, from land fragmentation and transition to other land uses.

The current programs pay eligible producers for specific rights on their land. FRPP addresses protection of prime and unique farm and ranch land; GRP addresses grasslands; and HFRP, which was authorized in the Healthy Forest Restoration Act, addresses forest land which provides habitat for threatened and endangered species.

These easement programs are implemented through landowners who voluntarily agree to a deed restriction and some degree of landscape and resource restoration. Each program has unique regulations, unique programmatic requirements for participation, and unique application, contracting, and payment processes.

CONSERVATION RESERVE PROGRAM

Recommendation in Brief
Reauthorize and enhance the Conservation Reserve Program (CRP) to focus on lands that provide the most benefits for environmentally sensitive lands. And in addition, give priority within whole-field enrollment for lands utilized for biomass production for energy.

Problem
As CRP contracts expire in the coming years, high commodity prices and other market forces within agriculture will likely provide incentives for producers to convert current CRP land into agricultural production. Growing demands for agricultural commodities globally and for use in energy production have increased the competition for land. As Eric from Alabama told us during a Farm Bill Forum, "Many of the landowners in my area… appreciate it. However… our area needs that land back in production… We suggest that you take a deeper look at this program in the future." And many wanted the CRP program to have a stronger focus on environmentally-sensitive lands, such as Jane, from Montana who said, "The Conservation Reserve Program should place its highest emphasis on environmentally-sensitive land and practices that will improve the soil and water quality in the long term."

Recommended Solution
The Administration proposes to focus CRP on lands that provide the most effective environmental benefit. Under the proposal, these environmentally sensitive lands would continue to be enrolled in continuous CRP and the Conservation Reserve Enhancement Program (CREP). The criteria for continuous CRP would be revised to ensure at-risk landscapes would be considered, such as enrollment of partial fields or irrigated land in areas where water availability is limited.

General CRP sign-ups would continue to give priority to environmentally sensitive land. However, USDA would also prioritize farmland planted in a biomass reserve of perennial crops used for cellulosic energy production. Currently, over 27 million acres of Conservation Reserve Program (CRP) contracts are on farmland capability classes I to IV, lands that are suited for growing crops. These lands could continue to provide various environmental benefits while being used for biomass production. These lands would also retain the ability to fulfill wildlife habitat needs. The program would establish clear requirements that biomass could only be harvested after nesting season. The rental payment would be limited to income forgone or costs incurred by the participant to meet conservation requirements in those years biomass was harvested for energy production.

Background
The CRP was established by the Food Security Act of 1985 with the dual purposes of preventing soil erosion and achieving crop supply control. The program grew into its current emphasis on soil erosion, water quality, air quality, and wildlife habitat through a succession of Farm Bill amendments over the years. The CRP and the CREP are voluntary programs for agricultural landowners or operators. Both programs provide annual rental payments based on the agricultural rental value of the land and cost-share assistance. The program currently has 37

million acres of agricultural land, with about 7 million acres reserved for continuous CRP and CREP.

The CRP is notified to the World Trade Organization (WTO) as a program of structural adjustment through resource retirement. Under WTO criteria, to be eligible for “green box” status, such payments must be part of a well-defined government program that removes land or other resources from marketable agricultural production for a minimum of three years (permanently for livestock). Payments shall not require or specify an alternative use for the retired resources that involves the production of marketable agricultural products. CRP is notified as “green box” by the United States.

Because biomass would be harvested for commercial use, the payments made to biomass reserve participants would not qualify for “green box” status as a structural adjustment program. However, the payments under the biomass reserve would be designed to qualify for “green box” status as an environmental program. To be eligible for green box status as an environmental program, payments must be part of a clearly-defined government environmental or conservation program and must fulfill specific conditions under the program, including those related to production or inputs. In addition, payments must be limited to the extra costs or loss of income involved in complying with the program.

WETLANDS RESERVE PROGRAM

Recommendation in Brief

Reauthorize the Wetlands Reserve Program (WRP) and consolidate the floodplain easements program of the Emergency Watershed Program into the WRP. Increase the total enrollment cap to 3.5 million acres, but maintain a fiscal year enrollment goal of 250,000 acres. This increase in acreage equates to an investment of $2.125 billion over ten years. Also introduce popular attributes of other easement programs into WRP.

Problem

The WRP has active projects in all 50 States and Puerto Rico and a total acreage enrollment of 1,893,671, with an additional 250,000 acres expected to be enrolled in calendar year 2007. The program is scheduled to expire in 2007. USDA heard broad support for this program in the farm bill forums; comments like those of Cheryl in Georgia, "these programs provide benefits to all taxpayers by providing clean water and air, healthy soil, recreation opportunities and wildlife habitat…these conservation programs should be reauthorized…the level of funding should be increased and the allowable acreages for these programs should be increased."

Currently, flexibilities and strengths of working lands programs, such as leveraging of federal funds with state, local, and private contributions under the Farm and Ranchland Protection Program (FRPP), are not applied to the WRP. The Federal government pays the entire cost of the easement and incurs all the long-term costs associated with managing the easement. The program offers no regulatory protections for performing activities that result in a net-benefit to the environment. For example, under the Healthy Forest Reserve Program (HFRP), landowners can receive certain regulatory protections when performing activities that will result in a net-benefit to species. However, WRP participants do not receive these same regulatory assurances.

Recommended Solution

The Administration proposes consolidating the floodplain easement function of the Emergency Watershed Program into a new WRP and increasing the enrollment cap from 2,275,000 acres to 3,525,000 acres. Similar to the 2002 farm bill, the authorization for WRP would only extend for the five years covered by the new farm bill, adding $2.125 billion in mandatory funding to the program.

This expansion would be critical to meeting the Nation's environmental goals, including the President's Wetlands Initiative to restore, protect, or enhance 3 million acres of wetlands by 2009. The single program would reduce the variances in standards and regulations, which result in increased complexities and length of time required to review applications.

Additionally, we recommend maintaining the annual enrollment goal of 250,000 acres, but basing the goal on fiscal year instead of calendar year. This policy change would be consistent with how funds are appropriated by Congress and would improve overall program administration. Enhanced WRP monitoring and compliance activities should be explicitly authorized to demonstrate the long-term environmental and taxpayer benefits of the program.

This enhanced WRP should also build on the popular attributes of other existing programs:

- Like FRPP, it would allow for third parties to hold easements while preserving the option for the federal government to hold easements, as well.
- The new program would incorporate market based features, such as including landowner contributions and other leveraging opportunities of FRPP as a key feature of the new combined program and a means of gaining the maximum benefit for the investment of taxpayer dollars. For example, the reverse auction piloted in WRP in 2006 reduced easement acquisition costs by 14 percent.
- As with HFRP, the new program would provide assurances and certainty in compliance with federal and state regulations using a cooperative conservation approach.
- The Wetlands Reserve Enhancement Program (WREP) should be modified to model the Conservation Reserve Enhancement Program, which would encourage partnerships with States to provide flexibility and cost-share for easement acquisition and activities associated with wetland restoration, creation, or enhancement within the state.

Background

The WRP and the WREP are voluntary programs that provide technical and financial assistance to enable qualified landowners to address wetland, wildlife habitat, soil, water, and related natural resource concerns on private lands in an environmentally beneficial manner. This program offers landowners an opportunity to establish, at minimal cost, long-term conservation and wildlife habitat enhancement practices through permanent easements, 30 year easements, and restoration cost-share agreements. WRP was reauthorized in the 2002 farm bill with a total enrollment cap of 2,275,000 acres.

A national shift from substantial wetlands losses to wetlands protection has occurred over the past 50 years, driven by changing public perception, scientific understanding, and policy direction. In April 2004, the President announced a national Wetlands Initiative to accelerate net-wetlands gains over the next five years and restore, protect, or enhance 3 million acres of wetlands by 2009.

The WRP goal is to achieve the greatest wetland functions and values, along with optimum wildlife habitat on every acre enrolled in the program. At least 70 percent of the wetland and upland areas will be restored to the original natural condition to the extent practicable. The remaining 30 percent of the project area may be restored to other than natural conditions. The WRP focuses on:

- Enrolling marginal lands that have a history of crop failures or low yields
- Restoring and protecting wetland values on degraded wetlands
- Maximizing wildlife benefits
- Achieving cost effective restoration with a priority on migratory bird benefits
- Protecting and improving water quality
- Reducing the impact of flood events

IMPLEMENT "SOD SAVER" TO DISCOURAGE THE CONVERSION OF GRASSLAND INTO CROPLAND

Recommendation In Brief
Expand conservation compliance to include "Sod Saver" to discourage conversion of grassland to crop production.

Problem
Properly managed grasslands provide important ecological functions. Grasslands help to maintain habitat and migration corridors for wildlife, supporting a rich biodiversity of plant and animal species. Since grasslands account for large acreages in many U.S. river basins, they are important in hydrologic processes involving stream flow, aquifer recharge, and water filtration. In addition, grasslands sequester substantial amounts of atmospheric carbon. In addition, grasslands support livestock production and contribute importantly to rural economies, including hunting and fishing, wildlife viewing, and ranch-based recreation.

According to USDA's Natural Resources Conservation Service, acreage in non-Federal grasslands fell by 24 million acres from 1982-2002. A major factor contributing to the loss of grasslands in recent years has been urban development and the conversion of grasslands to roads, shopping centers, and housing developments. In addition, cropland expansion has contributed to grassland conversion, particularly in years of strong crop demand. The rate of conversion of grassland to cropland could increase greatly over the next several years as increased production of biofuels boosts the demand for corn and other crops.

Under current conservation compliance provisions, producers must adopt soil and wetland conservation practices on fragile lands to be eligible for farm price and income support and other USDA program benefits. However, current conservation compliance provisions do not apply to the conversion of grassland to cropland, unless the converted grassland is considered to be highly erodible. Even in this situation, a producer can elect to convert the grassland to cropland and remain eligible for farm price and income support and other USDA program benefits, if the converted grassland is farmed according to a USDA-approved conservation system that provides for a specified level of erosion control.

Recommended Solution
The Administration recommends broadening conservation compliance provisions to include "Sod Saver." Under the proposed sod saver provision, grassland (rangeland and native grasslands, not previously in crop production) converted into crop production would be permanently ineligible for farm price and income support and other USDA program benefits.

Background
The 1985 and succeeding farm bills have included conservation compliance requirements for farmers who utilize certain USDA benefits. Conservation compliance provisions for highly erodible land (HEL) are commonly referred to as Sodbuster, and wetland conservation (WC) compliance provisions are often called Swampbuster. While the legislation has been amended

several times over two decades, the central premise of wetland and highly erodible land preservation remains in place.

The objectives of conservation compliance are to: (1) reduce soil erosion on the Nation's cropland; (2) protect the Nation's long-term capability to produce food and fiber; (3) reduce sedimentation and improve water quality; and (4) preserve and protect the Nation's wetlands.

To be eligible for a USDA program benefit when producing an annual agricultural commodity, USDA program participants must apply an approved conservation system that provides a substantial reduction in soil erosion or a substantial improvement in soil conditions on a field or fields that contain highly erodible land. To maintain program eligibility, in most cases participants must also certify that they have not produced crops on wetlands converted after December 23, 1985, and did not convert a wetland to agricultural production after November 28, 1990.

The following USDA benefits may be affected:

(a) Direct and Counter-Cyclical Payments
(b) Marketing assistance loans, including loan deficiency payments and marketing loan gains
(c) Farm storage facility loans (not subject to WC)
(d) Disaster payments
(e) Farm Operating Loans authorized under the Consolidated Farm and Rural Development Act
(f) Conservation Security Program (CSP)
(g) Conservation Reserve Program (CRP)
(h) Environmental Quality Incentives Program (EQIP)
(i) Farm and Ranch Land Protection Program (FRPP)
(j) Grassland Reserve Program (GRP)
(k) Wetlands Reserve Program (WRP)
(l) Wildlife Habitat Incentives Program (WHIP)
(m) Agricultural Credit Act of 1976 payments (not subject to WC)
(n) Public Law 83–566, Small Watershed Program contracts

CONSERVATION ACCESS FOR BEGINNING AND SOCIALLY DISADVANTAGED PRODUCERS

Recommendation in Brief

Designate a portion of each conservation program specifically for beginning farmers and ranchers, as well as socially disadvantaged producers.

Problem

Natural resource concerns are indiscriminate with regard to landowner boundaries. Beginning farmers and ranchers, as well as socially disadvantaged producers, often have less exposure to USDA programs and less familiarity with conservation practices. However, when provided information and tools to assist them with their long-term conservation goals, they take full advantage of the assistance.

Beginning farmers and ranchers, as well as socially disadvantaged producers, are underserved by USDA programs. Beginning farmers and ranchers are an important component of all principle operators, yet less than one percent of this producer group applied for the Environmental Quality Incentives Program in fiscal year 2006. These producers have not traditionally worked with farm bill programs and are often not aware of the types of practices needed to address common soil and water conservation problems. Extensive outreach is appropriate to ensure these producers are aware of these programs and practices. As Lorette noted at the North Carolina Farm Bill Forum, "the current programs cannot be accessed by small and particularly minority farmers. We need a lot more resources to work one-on-one with farmers to eradicate all the problems in the system, to get farmers into the programs that do exist."

Economies of size enable larger commercial farms to have low unit costs when implementing conservation measures while addressing large resource concerns. As with socially disadvantaged producers, the majority of beginning farmers and ranchers have small operations (the majority of beginning farmers and ranchers have operations of fewer than 50 acres). Without special incentives, these producers are less likely to have competitive applications for farm bill programs that target more complex resource needs.

Recommended Solution

To increase adoption of conservation practices, the Administration proposes reserving 10 percent of farm bill conservation financial assistance for beginning farmers and ranchers, as well as socially disadvantaged producers under a new Conservation Access Initiative. This new initiative would maintain the higher rates of Federal cost-share, but also direct a greater technical assistance percentage than the traditional program to better address the needs of socially disadvantaged agricultural producers.

Funds set-aside under the Conservation Access Initiative within the Conservation Innovation Grants would be used for technology transfer, farmer-to-farmer workshops, and demonstrations of conservation success to further adoption of innovative conservation practices.

Demonstrating benefits of conservation in communities without high adoption of conservation practices is critical to national conservation goals. To expand the horizons of USDA conservation activities, setting aside funds specifically for competition among beginning farmers as well as socially disadvantaged producers will result in greater environmental benefits for society.

The Administration also supports statutory flexibility within this program to allow the Secretary to reallocate these reserved funds if projections indicate that some of this funding will go unused.

Background

The 2002 farm bill recognizes the unique challenges of farmers and ranchers who are just beginning their agricultural businesses. These beginning farmers and ranchers are given special recognition in the farm bill to encourage Americans to take up careers as farmers and ranchers and help them succeed.

The number and percentage of beginning farmers and ranchers drops as operation size increases. Minorities represent around 5.1 percent of all farmers and ranchers in the United States. They operate almost 80 million acres, 8.4 percent of U.S. farmland, which is an 8 million acre increase from 1997 to 2002.

MARKET-BASED APPROACH TO CONSERVATION

Recommendation in Brief

Invest $50 million over 10 years to encourage new private sector environmental markets to supplement existing conservation and forestry programs. Introduce market forces into existing conservation programs to provide greater environmental returns from Federal and landowner investments in conservation.

Problem

Many conservation and environmental benefits produced on U.S. farms and private forestlands do not have an assigned value in the market place or lack a private market altogether. Consequently, farmers, ranchers, and forestland owners have little financial incentive to provide these public goods and services.

While private markets for environmental goods and services are emerging, their viability has been hampered by several barriers including; high transaction costs, the small quantity of benefits that can be provided by individual farmers or landowners, performance risks and liability, and uncertainties in quantifying benefits. New authorities could overcome these barriers and promote the establishment of markets for agricultural and forestry conservation activities.

In addition, several current conservation programs use static payment systems for cost-share, rental, and easement payments. Under more market-based approaches, existing conservation programs could be restructured to foster competition, allowing resources to reach more farmers and landowners.

Support for this concept was articulated by John from California who said, “We urge consideration of programs that leverage private dollars for the provision of public benefits and we look forward to exploring options such as carbon sequestration, threatened and endangered species mitigation banking, and other possibilities that can help landowners continue to provide natural resource services and goods to the nation.”

Recommended Solution

The Administration recommends USDA and other federal agencies be authorized to ensure that environmental goods and services produced by agriculture and forests can be used as offsets in regulatory, voluntary partnerships and incentive programs. Generating substantial private-sector demand for environmental goods and services hinges on the ability to use environmental credits generated by agricultural and forest conservation activities. For example, a business that is a point source of water pollution could pay a farmer to establish buffer strips to reduce nutrient runoff. These buffer strips might also rehabilitate wetlands, sequester carbon and provide wildlife habitat.

Mandatory funding of $50 million dollars is recommended to be available until expended to be utilized to develop uniform standards for quantifying environmental services; establish credit registries; and offer credit audit and certification services. Additionally, existing programs should be amended to allow for market-based and price discovery mechanisms, such as bidding and reverse auctions.

Background

Agriculture and forestry conservation activities can produce environmental services, such as clean air and water, at lower costs than conventional pollution controls on industrial emissions and effluent. Traditional environmental regulations require firms to reduce pollution to a set level or to install specific technologies and practices. While fairly straightforward, this approach can be costly both to the firms and to society because firms with high costs of pollution reduction and those with low costs are required to meet the same requirements, which may waste resources. In addition, voluntary private-sector partnerships, and incentive programs, both public and private, are generating demand for environmental goods and services associated with agricultural and forest conservation activities. Private sector environmental markets can offer efficiency improvements over traditional regulations and could result in overall increases in environmental and conservation benefits.

In current programs such as the Environmental Quality Incentives Program, the Conservation Security Program, and the Farm and Ranchlands Protection Program, USDA does not have the authority to rank applications based on bidding and consideration of an applicant’s willingness to increase their share of funding contributed. As part of the continued efforts to improve the efficiency of conservation programs, market-based and price discovery mechanisms should be added to USDA’s authorities.

MERIT-BASED FUNDING ALLOCATION

Recommendation in Brief

Repeal Section 1241(d) of the 1985 Food Security Act, the regional equity provision, to allow funding to be allocated based on the highest need and best use of conservation funding.

Problem

Section 1241(d) of the 2002 farm bill, the regional equity provision, fails to allocate funding based on the highest need and best use of limited conservation funding. Section 1241(d) allocations have also resulted in questionable program projects and diverted USDA attention and capacity away from other priority conservation initiatives.

Using non-merit based factors in allocating resources results in inefficient allocation of resources and less benefit per dollar invested. From fiscal year 2004-2006, more than $150 million have been diverted to other regions compared to a merit-based, resource allocation process. As John, from Oregon, suggested, "Dollars for conservation and environmental objectives should be prioritized to ensure resources are addressing the most important needs of the landscape."

Recommended Solution

The Administration recommends the elimination of Section 1241(d) of the 2002 farm bill, the regional equity provision. This policy change will recognize merit-based, quantitative program allocation and ranking processes as the most efficient and cost-effective method of allocating Federal resources.

Background

The 2002 farm bill requires that "*Before April 1* of each fiscal year, the Secretary *shall* give priority for funding under the conservation programs under subtitle D *to approved applications* in any State that has not received, for the fiscal year, an aggregate amount of at least $12,000,000 for those conservation programs." Programs covered by this regional equity provision include the Environmental Quality Incentives Program (EQIP), the Wildlife Habitat Incentives Program (WHIP), the Farm and Ranchland Protection Program (FRPP), the Grassland Reserve Program (GRP), and the Conservation on Private Grazing Lands Program.

In FY 2005, the regional equity provision was fully implemented. A total of $80 million was shifted from initial allocation totals and redistributed to 13 states which fell below the $12 million threshold. More meritorious applicants in other states were denied $40 million in EQIP funding, $10 million in WHIP funding, $15 million in FRPP funding, and $15 million in GRP funding due to this provision.

EMERGENCY LANDSCAPE RESTORATION PROGRAM

Recommendation in Brief

Consolidate two emergency response programs - the Emergency Watershed Protection (EWP) and the Emergency Conservation Program (ECP) -- into a new Emergency Landscape Restoration Program. Provide a one-stop source for landowners who need assistance after a catastrophic event to restore land to its productive state and prevent further land and water impairments.

Problem

Although natural disasters are unpredictable, the fact that they will occur is certain. The devastation caused by Hurricane Katrina demonstrated that the distinction is not always clear between activities covered under the ECP and those covered under the EWP, leading to further confusion and frustration among citizens facing a natural disaster. Lines of authority between individual federal disaster programs sometimes lead to duplication or gaps between programs.

Recommended Solution

The Administration proposes a new Emergency Landscape Restoration Program to restore agricultural landscapes from the devastation of fire, drought, flood, and other resource impacting natural events. The new program would provide a one-stop source of assistance for restoring land back into its productive state, preventing further impairment of land and water, and further protecting our natural resources.

The Emergency Landscape Restoration Program would eliminate unclear areas in statutory authority between rehabilitating watersheds versus rehabilitating agricultural lands. Providing this comprehensive landscape approach will allow better and more comprehensive natural resource benefits to be realized in the wake of disasters.

Funding for this new program would be subject to appropriations, similar to current law funding of the ECP and the EWP. Funding would be provided for an individual assistance pool and a public assistance pool. Over the ten year period from 1997-2006, annual appropriations have averaged $158 million for EWP and $58 million for ECP.

Background

EWP implements recovery measures to address natural disasters that have caused an impairment of a watershed. The program works through providing assistance to local sponsors such as neighborhood associations, cities, counties, watershed councils, and conservation districts. EWP provides financial and technical assistance to remove debris from streams, implement measures that protect destabilized streambanks, establish cover on critically eroding lands, repair conservation practices, and purchase flood plain easements.

ECP provides emergency funding and technical assistance for farmers and ranchers to rehabilitate farmland damaged by natural disasters and for carrying out emergency water conservation measures in periods of severe drought. The funds are utilized to rehabilitate farmland, which may include debris removal, restoration of fences and conservation structures, and the providing of water for livestock in drought situations. The program works on a reimbursable basis of up to 75 percent of the cost to implement the approved conservation practices. Funds are available when appropriated by Congress.

TITLE III
TRADE

SUMMARY OF TRADE TITLE REFORM

Recommendations In Brief
Improve farm bill policy to expand and ensure fairness of international trade.

Problem
Developing countries and developed countries alike are increasingly using unscientific sanitary, phytosanitary, and technical standards as non-tariff trade barriers to imports of U.S. agricultural products. This is especially true for specialty crops and meat and poultry products. This practice has had a significant impact on the U.S. export market.

At the same time, American agricultural productivity continues to expand at a consistent rate of about two percent per year, while the U.S. population, and therefore consumption, is increasing by only about one percent per year. Additionally, 95 percent of the world's population, the majority of consumers, lives outside our borders. This population represents market opportunities for U.S. agriculture if we appropriately respond to unfair practices as well as strengthen our efforts to revitalize the agricultural sectors in fragile regions.

USDA heard about trade challenges at many Farm Bill Forums. For example, Dan from Montana pleaded, "We have a huge production machine in the U.S. ag industry, and it just feels like there's a lot of hidden barriers and things there that are out of our control as producers."

Recommended Solution
The Administration is recommending several proposed changes and new initiatives to Title III – entitled "Trade." Following is a list of the major components of the package.

1. Expand mandatory funding for the Technical Assistance for Specialty Crops (TASC) grant program to $68 million over 10 years and increase the maximum allowable project award to $500,000. (For further information, see the proposal entitled "Expand Technical Assistance for Specialty Crops" on pages 67 – 68.)
2. Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities. (For further information, see the proposal entitled "Enhance the Market Access Program" on pages 69 – 70.)
3. Establish a new grant program investing $20 million over 10 years to further focus resources on addressing international sanitary and phytosanitary (SPS) issues for all agricultural commodities. (For further information, see the proposal entitled "Grant Program to Address Sanitary and Phytosanitary Issues" on page 71.)
4. Authorize and provide long-term mandatory funding of $15 million over 10 years to enhance USDA staff support for international standard-setting bodies, such as the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization. (For further information, see the proposal entitled "Support International Trade Standard Setting Activities" on page 72.)
5. Provide enhanced monitoring, analytical support, and other technical assistance to support U.S. agriculture in bringing forward or responding to significant trade disputes

and challenges. (For further information, see the proposal entitled “Technical Assistance to Resolve Trade Disputes” on pages 73 – 74.)

6. Expand trade capacity, food safety, and agricultural extension programs in fragile regions through $20 million of mandatory funding over 10 years. (For further information, see the proposal entitled “Trade Capacity Building and Agricultural Extension Programs in Fragile Regions” on page 75.)
7. Reform the Commodity Credit Corporation’s (CCC) export credit guarantee programs to bring them into compliance with the findings of the World Trade Organization dispute resolution panel in the Brazil cotton case. Terminate the Supplier Credit Guarantee Program (SCGP) due to approximately $227 million in defaults and evidence of fraudulent activity. (For further information, see the proposal entitled “Reform Export Credit Guarantee Programs” on pages 76 – 77.)
8. Revise the Facility Guarantee Program (FGP) to attract additional users who commit to purchasing U.S. agricultural products. These program improvements are estimated to increase usage of the program by $16 million over the next 10 years. (For further information, see the proposal entitled “Facility Guarantee Program Revisions” on page 78.)
9. Repeal the Global Market Strategy mandate and the Export Enhancement Program, which are redundant or inactive, allowing USDA to focus resources on priority issues. (For further information, see the proposal entitled “Repeal the Export Enhancement Program and Global Market Strategy Report” on pages 79 – 80.)
10. Authorize the use of up to 25 percent of P.L. 480 Title II funds for the local or regional purchase and distribution of emergency food to assist people threatened by a food security crisis. (For further information, see the proposal entitled “Provide Cash Authority for Portion of Emergency Food Aid” on pages 81– 82.)

EXPAND TECHNICAL ASSISTANCE FOR SPECIALTY CROPS

Recommendation In Brief

Expand mandatory funding for the Technical Assistance for Specialty Crops (TASC) grant program to $68 million over 10 years and increase the maximum allowable project award to $500,000.

Problem

International trade in specialty crops has expanded more rapidly than trade in other agricultural commodities, especially since the 1980s. For example, fruits and vegetables have claimed an increasing share of world agricultural trade, from $3.4 billion in 1961 to nearly $70 billion in 2001. However, trade in specialty crops continues to face increasing challenges especially in the area of sanitary, phytosanitary, and technical barriers in other countries.

These challenges tend to be complex, multi-region issues that are not easily addressed. However, current law caps TASC project awards at $250,000, which can limit the effectiveness of efforts to address these complex problems. Greater flexibility in the TASC program to accept larger, multidisciplinary projects would allow for better quality proposals and improved assistance to specialty crop growers.

Trade barriers were cited as top concerns by some specialty crop producers who commented during USDA Farm Bill Forums. Barry from California said, "…our ability to increase exports is hindered by the reality of non-tariff trade barriers…our efforts have been assisted by the existence of TASC…funds and this is an area that should be expanded."

Recommended Solution

In order to increase usage of the TASC grant program, the Administration recommends increasing the maximum allowable annual project award from $250,000 to $500,000 and allowing more flexibility to allow project timeline extensions. Additionally, the Administration proposes a phase-in of enhanced annual mandatory funding for the TASC program including $4 million in FY 2008; $6 million in FY 2009; $8 million in FY 2010; and $10 million thereafter through FY 2015.

Background

The 2002 farm bill created the TASC program and authorized the use of $2 million of Commodity Credit Corporation (CCC) resources in each fiscal year from 2002 to 2007.

TASC assists U.S. food and agricultural organizations by funding projects that address sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of U.S. specialty crops. For purposes of the TASC program, a "specialty crop" is defined as all cultivated plants and the products thereof, produced in the United States, *except* wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and tobacco. These grants may cover activities such as seminars and workshops, study tours, field surveys, pest and disease research, and pre-clearance programs.

TASC proposals are accepted from any U.S. organization, including, but not limited to - U.S. government agencies, State government agencies, non-profit trade associations, universities, agricultural cooperatives, and private companies. USDA provides these grant funds as direct assistance to U.S. organizations. Applicant contributions are not required, but strongly encouraged.

Each year, USDA announces via the *Federal Register* an application period for participation in TASC. Funds are awarded to applicants that demonstrate how their project will overcome trade barriers resulting in market access retention or expansion for specialty crops. Current law award maximums are $250,000 per year for activities of up to three years. Proposals may target any eligible export market, including single countries or a regional grouping of countries. No TASC participant may have more than three projects underway at the same time.

ENHANCE THE MARKET ACCESS PROGRAM

Recommendation In Brief

Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities.

Problem

Specialty crop production receives very little cash benefit from the farm bill. More than 90 percent of the commodity program subsidy payments go to five crops -- corn, wheat, rice, soybeans, and cotton. However, specialty crops are now equal in value to these program crops. During Farm Bill Forums, Secretary Johanns heard frequently about this disparity from specialty crop producers who made a compelling case for a more equitable share in the next farm bill, often requesting an increase in market access efforts. Allison, a strawberry farmer in New York said, “What I need to stay competitive is more agricultural and marketing research and promotion – on specialty crops. There is a tremendous imbalance between money spent on program crops and money spent on specialty crops…” Tom from California said, “This program has proven to be very successful in assisting U.S. fruit and vegetable exports to be more competitive in world markets, and it is critical that the Administration and Congress fund MAP at the maximum authorized level.” Dale from Washington State said, “We…hope that the new farm bill will increase the MAP funding…that helps us open foreign markets and sell our fruit crops abroad.”

While specialty crop producers specifically requested an expansion of MAP, the program benefits more than specialty crop producers, supporting the full range of food and agricultural commodities. This support is important at a time when American agricultural productivity continues to expand at a consistent rate of about two percent per year, while the U.S. population, and therefore consumption, is increasing by only about one percent per year. Additionally, approximately 95 percent of the world's population, the majority of consumers, lives outside the U.S. borders. This population represents new and expanding market opportunities for U.S. agricultural products. Currently, agricultural exports are equal to about 25 percent of U.S. farm cash receipts, so programs that open new markets and strengthen overall U.S. agricultural trade are essential. MAP is one such program. It helps to ensure the U.S. agricultural trade balance remains positive.

Recommended Solution

The Administration recommends increasing Market Access Program funding from $200 million to $225 million annually. USDA will apportion this additional funding to address the inequity between farm bill program crops and non-program commodities. Additionally, organic agriculture should be allowed to compete for MAP funding to help develop and increase the organic export market.

Background

The Market Access Program assists in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products. MAP is authorized by Section 203 of the Agricultural Trade Act of 1978.

MAP forms a partnership between USDA and non-profit U.S. agricultural trade associations, U.S. agricultural cooperatives, non-profit state-regional trade groups, and small U.S. businesses to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

Each year, MAP helps launch and expand sales of U.S. agricultural, fish, and forest products overseas. MAP uses funds from the USDA's Commodity Credit Corporation to partially reimburse program participants for foreign market promotion activities. MAP applications undergo a competitive review process.

The 2002 farm bill authorized MAP at an annual funding level of $90 million for FY 2001, $100 million for FY 2002, $110 million for FY 2003, $125 million for FY 2004, $140 million for FY 2005, and $200 million for FYs 2006 and 2007.

Agricultural cooperatives and small companies can receive assistance for branded product promotion under MAP, but individual companies must provide at least 50 percent of the funding to participate. For generic promotion activities under MAP, trade associations and others must meet a minimum 10-percent match requirement. Participants are required to certify that federal funds used under the program supplement - and do not replace - private sector funds.

USDA has approved MAP proposals to promote a wide variety of U.S. commodities in almost every region of the world. Among these U.S. food and fiber products are apples, asparagus, canned peaches and fruit cocktail, catfish, cherries, citrus, cotton, dairy products, dry beans, eggs, feed grains, frozen potatoes, grapes, honey, hops, kiwifruit, meat, peanuts, pears, pet food, pistachios, poultry meat, prunes, raisins, rice, salmon, soybeans, strawberries, sunflower seeds, surimi, tallow, tomato products, walnuts, watermelons, and wheat.

GRANT PROGRAM TO ADDRESS SANITARY AND PHYTOSANITARY ISSUES

Recommendation In Brief
Establish a new grant program investing $20 million over 10 years to further focus resources on addressing international sanitary and phytosanitary (SPS) issues for all agricultural commodities.

Problem
Developing countries and developed countries alike are increasingly using unscientific sanitary and phytosanitary standards as non-tariff barriers to U.S. agricultural products. Examples include biotechnology restrictions, maximum residue standards, and restrictions on U.S. beef due to BSE. USDA needs technical expertise on an ad-hoc basis to address SPS barriers as they arise and before they burgeon into larger problems.

This problem was highlighted repeatedly during USDA's Farm Bill Forums and in comments submitted to USDA. Ross from Texas stated, "We must be able to remove unfair trade barriers in a more timely manner." Paul from Hawaii said, "Continue to support and increase support for programs that remove, resolve, or mitigate sanitary and phytosanitary barriers to trade."

Recommended Solution
The Administration proposes creation of a new grant program focused on SPS issues, supported by $2 million in annual mandatory funding. This program would allow for new or expanded focus on such issues as foreign governments' acceptance of antimicrobial treatments; wood-packaging material; irradiation; biotechnology; science-based maximum residue level standards; and testing procedures and controls for mycotoxins.

Background
With an increasing number of non-tariff trade barriers in both developed and developing countries, the SPS issues grant program would be designed to fund projects that address sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of U.S. food and agricultural products, including meat, poultry, and specialty crops. The grants program would reduce the need to hire technical staff permanently, bring the creativity of the private sector to USDA technical problem solving, allow the USDA to commission targeted scientific reports, or otherwise make use of outside technical expertise to address technical trade barriers.

SUPPORT INTERNATIONAL TRADE STANDARD SETTING ACTIVITIES

Recommendation In Brief
Authorize and provide long-term mandatory funding of $15 million over 10 years to enhance USDA staff support for international standard-setting bodies, such as the *Codex Alimentarius,* the International Plant Protection Convention, and the World Animal Health Organization.

Problem
Technical trade barriers that are not scientifically justified are constraining U.S. agricultural exports. USDA heard about these struggles at various Farm Bill Forums. For example, Dan from Montana pleaded, “We have a huge production machine in the U.S. ag industry, and it just feels like there's a lot of hidden barriers and things there that are out of our control as producers.” And Jeremy, from South Dakota, wrote, “Ag countries around the globe are penalizing or threatening to penalize our producers with trade barriers.”

Increasing U.S. representation in and ensuring full funding of standard setting bodies at the Food and Agriculture Organization (FAO) and other similar international agricultural health organizations are critical to harmonizing multilateral food, plant, and animal safety standards. A lack of U.S. funding for staff support has led FAO to take a more Eurocentric approach to its analysis, which may be in conflict with U.S. objectives.

Recommended Solution
The Administration proposes to enhance USDA support for the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization - the three respective international standards setting bodies for food, plants, and animals. This initiative would close compensation gaps between USDA and international organizations. Additionally, it would increase funding from $200,000 to $1.5 million to fund up to four Associate Professional Officers a year to support U.S. sanitary and phytosanitary (SPS) priorities.

Background
International bodies establish and harmonize SPS standards and minimize technical barriers between countries and regional organizations. By ensuring these international health and safety protection standards are properly designed and implemented, the U.S. can avoid unwarranted technical barriers that threaten opportunities for two-way trade.

It is imperative that USDA place seasoned director-level staff in international organizations that have the experience, background, and savvy to effectively influence decision-making. Because these positions are employed by the international organizations, the USDA needs authority to close the gap between international organization and U.S. salaries, cost of living adjustments, and accrued service benefits, which would allow the U.S. to place more senior level personnel in policy positions.

TECHNICAL ASSISTANCE TO RESOLVE TRADE DISPUTES

Recommendation in Brief
Provide enhanced monitoring, analytical support, and other technical assistance to support U.S. agriculture in bringing forward or responding to significant trade disputes and challenges.

Problem
When industries are faced with unfair practices by our trading partners, they are often at a disadvantage due to limited information and resources. At the same time, U.S. industries may be challenged by other trading partners. Although the preferred route to address unfair trading practices may be to initiate a World Trade Organization (WTO) case, this may be impossible for limited resource industries. This situation adversely affects smaller groups and industries much more than larger, more resourceful entities. Trade dispute cases are typically very lengthy and resource intensive, often spanning several years. USDA can provide needed technical and analytical expertise to assist in the event of such action.

USDA was repeatedly encouraged to focus on lifting trade barriers during Farm Bill Forums held across the country and in written comments submitted to the Department. For example, Wendy from Iowa wrote, “Efforts should be continued to reduce trade barriers, providing a level playing field for U.S. exports in international markets.” Larry in Missouri, wrote, “…the removal of unfair, legally questionable foreign interventionist practices and highly-protective tariff and non-tariff trade barriers are essential for the U.S. industry to be competitive.”

Recommended Solution
The Administration proposes giving USDA broad discretionary authority to provide enhanced monitoring, technical assistance, and analytical support to limited resource agriculture groups if the Secretary of Agriculture determines that it would be beneficial to U.S. agriculture.

Background
As U.S. agriculture has become increasingly part of a global economy, more and more agricultural industries may face unfair competition or be challenged by other trading partners. U.S. industries have recourse through trade remedy laws – antidumping, countervailing duties, or safeguards – to address potential unfair competition. In addition, trade actions in the WTO are increasing and are another avenue to address unfair competition. Over the past decade, many U.S. agricultural industries have brought challenges through U.S. trade laws and worked with USDA and the U.S. Trade Representative (USTR) to resolve WTO cases. Conversely, some U.S. agricultural sectors have faced challenges in either the WTO or by other countries' trade remedy laws. USDA currently assists in such efforts by providing legal and analytical support, often working closely with USTR. Such actions are complex, lengthy, and time-consuming.

The impact of foreign trade competition was discussed at Farm Bill Forums. For example, Al from Rhode Island said, “Let's just try and keep our farms competitive with farms from overseas.” And Tim of Minnesota added, “We cannot compete, farmer against nation.”

Agricultural beneficiaries of the Trade Adjustment Assistance (TAA) Program have been few and decreasing while USDA operational costs for the program have been high in comparison to producer benefits. For example, in fiscal year 2006, TAA expenditures were $7.9 million, including $5.9 million in USDA operating costs (including technical assistance provided by the Cooperative State Research, Education, and Extension Service to eligible participants). Direct payments to eligible producers were only $2 million. Legal authority for Trade Adjustment Assistance recently expired. If Congress chooses to re-authorize this program, the Administration would like to be engaged to ensure this program is more useful and a better use of taxpayer dollars.

TRADE CAPACITY BUILDING AND AGRICULTURAL EXTENSION PROGRAMS IN FRAGILE REGIONS

Recommendation In Brief
Expand trade capacity, food safety, and agricultural extension programs in fragile regions of the world through $20 million of mandatory funding over 10 years.

Problem
International economic development is one of the three pillars of U.S. foreign and national security policy. In recent years, USDA has worked with the U.S. State Department, the Department of Defense, and the National Security Council to assist in the reconstruction and stabilization of Afghanistan and Iraq. Revitalization of the agricultural sector is essential in fragile regions, particularly those dependent on agriculture for food and employment. While USDA has provided technical assistance through agricultural extension programs, USDA has not received direct funding for such programs, limiting their reach and effectiveness.

Recommended Solution
The Administration proposes providing $2 million annually in direct mandatory funding for agriculture reconstruction and extension efforts for purposes of trade capacity. While USDA is engaged in significant activities in Afghanistan and Iraq, additional funds should be provided for future assistance needs in fragile and/or potentially unstable environments, such as Sudan or Somalia.

Background
In recent years, USDA has worked with the U.S. State Department, the Department of Defense, and the National Security Council to assist in the reconstruction and stabilization of post-conflict Afghanistan and Iraq.

Program benefits include:
- Supporting Presidential commitments to current and future international aid, such as agricultural extension projects or agriculture knowledge initiatives.
- Supporting U.S. foreign policy and national security goals of reconstruction and stabilization efforts in fragile regions.
- Preparing for future assistance needs in potentially unstable environments, such as Sudan or Somalia, where agriculture is a major sector for livelihoods and economic activity.
- Building bilateral partnerships with strategically important countries and agricultural sectors engaged in global trade.

REFORM EXPORT CREDIT GUARANTEE PROGRAMS

Recommendations in Brief

Further reform the Commodity Credit Corporation's (CCC) export credit guarantee programs in light of the findings of the World Trade Organization (WTO) in the Brazil cotton dispute. Terminate the Supplier Credit Guarantee Program (SCGP) due to approximately $227 million in defaults and evidence of fraudulent activity.

Problem

The WTO found that the CCC export credit guarantee programs are not consistent with U.S. obligations under international trade rules. Although the Administration has taken certain administrative steps to bring the programs into conformity with U.S. obligations, additional legislative changes would complement those actions and ensure that the programs remain WTO compliant. As Kid, from Texas noted at a Farm Bill Forum, "We have got to abide by those trade agreements that we made."

The Supplier Credit Guarantee Program has incurred a large number of defaults and has been subject to fraud. Total defaults over the life of the SCGP (1996 to present) equal approximately $227 million, with the largest losses occurring in FY 2004 (approximately $79 million) and FY 2005 (approximately $122 million). These recent defaults prompted USDA to withhold announcement of a SCGP program in FY 2006. Of the $227 million in default, approximately $7 million has been recovered.

Recommended Solution

The Administration recommends removing the one percent cap on fees that can be collected under the short-term Export Credit Guarantee Program (GSM-102) and eliminating the specific authority for the Intermediate Export Credit Guarantee Program (GSM-103). The Administration also proposes termination of the Supplier Credit Guarantee Program.

Background

In the Brazil cotton dispute, the WTO found that the CCC export credit guarantee programs are export subsidies provided in a way that is inconsistent with U.S. trade agreements. The WTO's findings apply not just to cotton, but also other U.S commodities that receive export credit guarantees. To comply with these findings, the Administration took a number of steps in July 2005 to bring the programs into conformity with U.S. obligations. With respect to the GSM-102 program, the Administration implemented a more risk-based fee structure that better reflects country risk ratings and length of guarantee coverage and eliminated the highest risk countries from the programs altogether. The Administration further suspended additional guarantee applications under the GSM-103 program. To complement these actions, the Administration submitted legislative proposals to Congress in July 2005 and again in March 2006.

The Administration proposes eliminating the cap on GSM-102 fees to provide greater flexibility and assist USDA in maintaining the risk-based fee structure adopted in July 2005. Eliminating the specific statutory authority for the GSM-103 program is consistent with the suspension of the program in July 2005. Further, participation in the GSM-103 program has been very low in recent years, and repeal of the specific authority is likely to affect few, if any, food or agricultural interests.

The Supplier Credit Guarantee Program is designed to help exporters offer direct, short-term credit to foreign buyers of U.S. food and agricultural products. USDA's CCC reduces the financial risk to exporters by guaranteeing a large portion of the payments due from importers under financing arrangements of up to 180 days. The direct credit extended by the exporter to the importer for the purchase of U.S. agricultural products must be secured by a promissory note signed by the importer. USDA issues the credit guarantee, while the exporter or the exporter’s bank provides the financing. A substantially smaller portion of the value of exports (currently 65 percent) is guaranteed under the SCGP than under the GSM-102 program, where the CCC is guaranteeing foreign bank obligations.

FACILITY GUARANTEE PROGRAM REVISIONS

Recommendation In Brief

Revise the Facility Guarantee Program (FGP) to attract additional users who commit to purchasing U.S. agricultural products. These program improvements are estimated to increase usage of the program by $16 million over the next 10 years.

Problem

Emerging markets often lack the infrastructure to support increased trade volume. USDA has a credit guarantee program, the Facility Guarantee Program (FGP), to help meet this need for increased trade capacity and infrastructure. However, the requirements to qualify for this program have discouraged its use. Thus, the program needs to adapt to market realities. As Jeff from Rhode Island said, "(in) the global economy that we live in…innovation is everything."

Recommended Solution

A robust Facility Guarantee Program is needed to facilitate trade in the CAFTA region. Thus, the Administration recommends expanding FGP loan authority to allow lower or no down payments, 98 percent principle and interest coverage, and longer tenor for up to the lifecycle of a facility's depreciation schedule (not to exceed 20 years). Additionally, we propose increased flexibility within the facility construction input origin requirements, including providing authority to the General Sales Manager to waive these requirements on a case-by-case basis where a U.S. equivalent input is not available or practical. These changes will make the program more viable and competitive with similar Export-Import Bank programs and would not exceed $50 million in additional subsidy costs. Project approvals would still be dependent on both the project and country risk assessment.

Background

The USDA Facility Guarantee Program was authorized by section 1542(b) of the 1990 farm bill. The FGP is designed to expand sales of U.S. agricultural products to emerging markets where inadequate storage, processing, or handling capacity limit trade potential. The program provides payment guarantees for one to 10 years to finance commercial exports of U.S. manufactured goods and services that will be used to improve agriculture-related facilities.

Emerging markets often lack the infrastructure to support increased trade volume. Export sales of U.S. equipment or expertise to improve ports, loading and unloading capacity, refrigerated storage, warehouse and distribution systems, and other related facilities may qualify for facility guarantees, as long as these improvements are expected to increase opportunities for U.S. agricultural exports.

Under this program, USDA's Commodity Credit Corporation (CCC) guarantees payments due from approved foreign banks to exporters or financial institutions in the United States. The financing must be obtained through normal commercial sources. Typically, a guarantee covers 95 percent of principal and a portion of interest.

REPEAL THE EXPORT ENHANCEMENT PROGRAM AND GLOBAL MARKET STRATEGY REPORT

Recommendation In Brief

Repeal the Global Market Strategy mandate and the Export Enhancement Program, which are redundant or inactive, allowing USDA to focus resources on priority issues.

Problem

The Export Enhancement Program (EEP) is no longer a useful tool for U.S. agricultural exports. EEP has been inactive for many years; therefore, eliminating EEP would not materially affect U.S. exports. Additionally, the utilization of EEP is inconsistent with the U.S. goal of eliminating export subsidies worldwide.

The Global Market Strategy (GMS) is a redundant mandate to USDA's existing United Export Strategy and Country Strategy programs. The GMS is not as useful or timely but carries administrative compliance costs to produce the report. Administrative costs to comply with the GMS total approximately $250,000 for reviewing and auditing the report.

Recommended Solution

The Administration proposes repealing the Global Market Strategy mandate and the Export Enhancement Program because they no longer serve valuable purposes. These changes would allow USDA to further focus staff and financial resources on priority issues.

Background

The 2002 farm bill requires that within six months after enactment and every two years thereafter, the Secretary of Agriculture consult with Congress on formulating and implementing a global market strategy that identifies growth opportunities in foreign markets for agricultural exports. However, USDA's existing United Export Strategy and Country Strategy programs use real-time market analysis and global intelligence, which more appropriately highlight opportunities for U.S. agricultural exports in global markets in a timelier manner.

The Export Enhancement Program is designed to help U.S. farm products meet competition from subsidizing countries, especially the European Union. Under the program, the U.S. Department of Agriculture pays cash to exporters as bonuses, allowing them to sell U.S. agricultural products in targeted countries at prices below the exporter's cost of acquiring them. The major objectives are to expand U.S. agricultural exports and to challenge unfair trade practices.

Consistent with its World Trade Organization commitments under the Uruguay Round Agreement on Agriculture, the United States has established annual ceilings, by commodity, with respect to export quantities and budget expenditures. The EEP has been inactive in recent years, and no allocations were announced for fiscal year 2005 or 2006. EEP bonuses become available only when USDA announces an operational EEP initiative for a specific commodity or commodities. Commodities eligible for EEP initiatives are wheat, wheat flour, rice, frozen poultry, barley, barley malt, table eggs, and vegetable oil. The 2002 farm bill established a maximum annual program level for EEP of $478 million, the maximum allowable level under the Uruguay Round export subsidy reduction commitments.

PROVIDE CASH AUTHORITY FOR PORTION OF EMERGENCY FOOD AID

Recommendation in Brief
Authorize the use of up to 25 percent of P.L. 480 Title II funds for the local or regional purchase and distribution of emergency food to assist people threatened by a food security crisis.

Problem
The Administration is very concerned about ensuring that food aid and famine prevention are effective and efficient and address the highest priority needs. Food purchased in the United States normally takes four months or longer to arrive at its destination. Food purchased locally, however, can reach beneficiaries within days or weeks in many cases.

Without the ability to use a portion of Title II for local and regional purchase, the U.S. is slower and has less flexibility to save lives and prevent famine. Speed is sometimes necessary when an emergency occurs with little notice (e.g., a natural disaster), food deliveries are unexpectedly interrupted (e.g., a pipeline break), or a cease fire allows rapid access to populations in need.

Under current law, P.L. 480 Title II may only be used to purchase and ship U.S. commodities. The current program is typically able to provide timely and effective assistance, but there have been several recent cases where P.L. 480 Title II could not be procured quickly enough and the U.S. either could not provide food, provided food late. Two notable cases in recent years have been Iraq in 2003 and the humanitarian crisis in Lebanon in 2006. The Administration would also have considered using this authority for the immediate response to the Asian tsunami in 2004, in southern Africa and Niger in 2005, and in East Africa in 2006.

Recommended Solution
The Administration proposes authorization to use up to 25 percent of the P.L. 480 Title II request to procure food from selected developing countries near the site of a crisis. This authority increases Administration tools to quickly meet emergency needs in the most effective way possible. Cash food aid will only be used in those cases where a rapid response is critical to saving lives. The majority of U.S. food aid will continue to rely on U.S. commodities.

U.S.-grown food will continue to play the primary role and will be the first choice in meeting global needs. Local and regional purchases will be used judiciously where the speed of the arrival of food aid is essential. The Administration will be better equipped to deal with emergencies if our tools include cash that can be used to provide immediate relief until US commodities arrive or to fill in when there are pipeline breaks.

Background
The P.L. 480 Title II food aid program, which buys U.S. food to be shipped to developing countries, is funded through the U.S. Department of Agriculture appropriation and administered by the U.S. Agency for International Development. The major use of this program is to address emergency humanitarian needs, save lives and to address the underlying causes of food insecurity.

P.L. 480 Title II is the largest U.S. international food aid program. The FY 2008 request is $1.2 billion (about $80 million higher than the FY 2006 enacted level). Current P.L. 480 legislation requires the use of U.S. commodities. The U.S. alone currently provides almost half of food aid distributed by the UN World Food Program. In FY 2007 and again in FY 2008, the increase in the Administration's request compared to FY 2006 is intended to complement the additional flexibility requested.

The Administration began requesting the authority to use a portion of food aid funding for cash food aid in food security emergencies in FY 2006. In FY 2008, as in FY 2007, the President's budget includes the request that the Administrator of the U.S. Agency for International Development (USAID) be granted authority to use up to 25 percent of appropriated P.L. 480 Title II funds for the local or regional purchase and distribution of food to assist people threatened by a food security crisis.

The principal reason for the proposal is to save lives. USAID's conservative estimate is the authority could feed at least one million additional people for 6 months and could save at least 50,000 lives in acute emergencies.

The Administration expects food would be purchased from developing countries, as defined by the OECD Development Assistance Committee list of ODA recipients. We do not foresee procuring food from Latin American countries because commodities usually can be shipped to the region quickly from the United States. We do not foresee purchasing significant food from East Asian countries because there are few major emergencies in the region that require large emergency food aid programs (e.g., prolonged conflict or wide-spread droughts affecting millions of people, as in Africa). We do not anticipate procuring commodities in one region of the world and shipping them to another distant region because commodities can likely be shipped from the United States just as quickly. We would not procure food from developed countries.

This authority would enable U.S. assistance to be more effective and more efficient. The authority would be used in those instances where the rapid use of cash for local or regional procurement is critical to saving lives in response to an emergency. The intention is not to change the way the United States meets most food aid needs, but rather to enhance the variety of tools at our disposal to address food emergencies.

TITLE IV
NUTRITION

SUMMARY OF IMPROVEMENTS TO NUTRITION PROGRAMS

Recommendations in Brief
Simplify and modernize the Food Stamp Program to improve access and better reflect the needs of recipients and States, while maintaining continued focus on program integrity. Streamline other food assistance programs to improve administration and efficiency of programs. Increase support for healthy eating, including in schools and other facilities that participate in food assistance programs.

Problem
The Food Stamp Program, established in 1964 and revised in 1977, is the largest Federal nutrition program for low-income households. Over the course of time, significant changes have been made in the program -- most significantly, moving from stamps to coupons to electronic benefits. Changes are needed in the law to allow simplification and modernization of this program to keep pace with changes.

Additionally, requirements in other food assistance programs prevent them from being run as efficiently as they could. Changes are needed to allow nutrition assistance programs to effectively and efficiently serve those in need.

Finally, obesity rates in this country continue at alarming levels. The 2005 Dietary Guidelines for Americans recommended higher fruit and vegetable consumption levels for most Americans, yet only one in five Americans consumes the recommended amount of fruit each day. Children under 18 years of age generally consume 50 percent or less of the recommended levels of fruits and vegetables. Providing increased fruit and vegetable options in the food assistance programs can help to increase consumption as well as improve the quality of many Americans' diets.

Recommended Solution
The Administration is recommending a broad package of proposed changes to the Title IV – entitled "Nutrition Programs" – to improve USDA nutrition programs and better serve their beneficiaries. Following is a list of the major components of the package.

Food Stamp Program
1. Improve access to the working poor and elderly by excluding retirement savings accounts when determining eligibility, conducting a pilot to increase support to employed food stamp recipients, eliminating the cap on the dependent care deduction, excluding the value of Internal Revenue Service approved college savings plans from the resource limit when determining eligibility, and excluding combat-related military pay. These reforms are estimated to generate an additional $1.38 billion over 10 years for participant benefits. (For further information, see the proposal entitled "Food Stamp Program: Working Poor and Elderly" on pages 87 – 89.)
2. Revise the name of the Food Stamp Program and de-obligate food stamp coupons to reflect that benefits are now provided electronically. Protect recipients from reimbursing States for overissuances that result from widespread systematic errors and hold States

accountable for these errors. (For further information, see the proposal entitled "Food Stamp Program: Streamlining and Modernizing Proposals" on pages 90 – 91.)

3. Strengthen provisions to further improve program integrity by limiting categorical eligibility to those that receive only TANF or SSI cash benefits. Allow flexibility in the assessment of retailer fines in certain circumstances. Allow the Secretary, in certain egregious trafficking cases, to seize and transfer funds to the Treasury; prohibit the exchange of food purchased with food stamp benefits for cash. Authorize USDA to charge State agencies five percent of administrative costs if the State is more than fifty percent above the national negative error rate for two consecutive years. Remove the new investment option for States sanctioned for improper payments for three consecutive years. (For further information, see the proposal entitled "Improve Food Stamp Program Integrity" on pages 92 – 94.)
4. Strengthen efforts to integrate nutrition education into the food stamp program by recognizing that nutrition education is a component of the program and investing $100 million to establish a five-year competitive grants demonstration program targeted at developing and testing solutions to the rising rates of obesity. (For further information, see the proposal entitled "Food Stamp Program: Improving Health through Nutrition Education" on pages 95 – 96.)

Other Food Assistance Programs

1. Recognize the permanency of The Emergency Food Assistance Program (TEFAP) State plans and remove barriers for local organizations to more effectively compete to participate in the program. (For further information, see the proposal entitled "The Emergency Food Assistance Program (TEFAP)" on pages 97 – 98.)
2. Increase funding by $27 million over 10 years to better reflect the actual administrative costs of the Food Distribution Program on Indian Reservations (FDPIR) and provide a structured method for allocating administrative funds among the Indian Tribal Organizations (ITO). Align nutrition assistance program disqualification policies to ensure that those barred from participation in FDPIR for intentional program violations are also disqualified from participation in the food stamp program. (For further information, see the proposal entitled "Food Distribution Program on Indian Reservations (FDPIR)" on pages 99 – 100.)
3. Exclude the value of the Seniors Farmers Market Nutrition Program benefits for tax purposes and when determining eligibility for any Federal or State means-tested programs; prohibit States from participating in the SFMNP if state or local sales tax is collected within the State on food purchased with SFMNP benefits. (For further information, see the proposal entitled "Seniors Farmers' Market Nutrition Program (SFMNP)" on pages 101 – 102.)

Promoting Healthy Diets

1. Support school efforts to provide meals based on the most recent Dietary Guidelines for Americans. Invest $6 million in mandatory funding to conduct a survey of foods purchased by school food authorities with Federal cash assistance once every 5 years. (For further information, see the proposal entitled "Promoting Healthful Diets in Schools" on pages 103 – 104.)
2. Provide new mandatory funding for the purchase of additional fresh fruits and vegetables for use in the National School Lunch and Breakfast Programs. This $500 million of funding over 10 years represents a net increase in the total purchase of fruits and vegetables for

school meals over levels available under any other authorities. (For further information, see the proposal entitled “Promoting Healthful Diets in Schools” on pages 103 – 104.)

3. Increase Section 32 spending on fruits and vegetables by $2.75 billion over 10 years. (For further information, see the proposal entitled “Promoting Healthful Diets in Schools” on pages 103 – 104 and the proposal entitled, “Increase Purchases of Fruits and Vegetables for Nutrition Assistance Programs” on pages 168 - 169).

FOOD STAMP PROGRAM:
Working Poor and Elderly

Recommendation In Brief

Improve access to the working poor and elderly by excluding retirement savings accounts when determining eligibility, allowing states the option of reimbursing work-related expenses, eliminating the cap on the dependent care deduction, excluding the value of Internal Revenue Service (IRS) approved college savings plans from the resource limit when determining eligibility, and excluding military combat pay. These reforms are estimated to generate an additional $1.38 billion over 10 years for participant benefits.

Problem

The working poor and elderly participate in the Food Stamp Program (FSP) at a lower percentage rate than the general low-income population. Several factors, including the complexity of the program and the fact that the Food Stamp Act does not specifically address education savings accounts, affect participation. Farm Bill Forums included recommendations supporting improvements to assist these two populations through policy simplification and expansion. For example, in discussing the importance of improving program accessibility to vulnerable populations, Julie from Florida said, "We need the process to be simplified for administrators and for the recipients." And Jodi from New York City added "We believe strongly in the importance of the food stamp program as a crucial mechanism for providing access to essential nutritional support for lower-income New Yorkers."

Recommended Solution

The Administration proposes improving access to the FSP for the elderly and working poor by:

1. *Encouraging savings for retirement* – This recommendation would exclude all retirement accounts from resources when determining eligibility for the program. This not only will encourage individuals to save for their retirement and help families save for their children's future, even if they experience a temporary need for food stamps.
2. *Strengthening the employment and training component by testing an expansion of the participant reimbursement for work-related expenses* – Current rules provide employment and training (E & T) funding for unemployed households only; the rules do not provide employment and training funds to support employed households. To further strengthen the Program's role in supporting work and moving individuals and families to self-sufficiency, this proposal would authorize the Secretary to conduct a pilot test to allow a limited number of States the flexibility to reimburse (with matching 50 percent Federal funds) work-related expenses for any household with earned income. The Secretary would be authorized to define the range of allowable job-related expenses such as uniforms, tools, and licensing (but not to include child care), and to place a limit on the time during which a working family may be eligible for reimbursement. The pilot would be conducted in no more than three States for a period not to exceed 3 years. The Federal share of newly reimbursed work-related expenses in the pilots shall not exceed $3 million.
3. *Eliminating the cap on the dependent care deduction* – Current policy supports work or participation in work services by providing for limited deductions from the family's gross

income associated with the cost of dependent care when determining food stamp eligibility and benefit amount: a cap of $200 per month for children under 2 and $175 for other dependent children is the current policy. These current caps have not been changed or adjusted for inflation since the provision was implemented in 1993. This proposal would simplify State administration and help working families with children.

4. *Excluding the value of IRS approved college savings plans from the resource limit* – This proposal would expand the plans eligible for exclusion from the resource limit when determining food stamp eligibility and would simplify administration for the States. Most significantly, it supports working poor, encourages focused savings for children's futures, and recognizes that households should not have to deplete college savings plans in order to get nutrition assistance. Current policy allows States to exclude college savings plans in accordance with their Temporary Assistance for Needy Families and Medicaid policies. Otherwise, the issue of account accessibility must be determined. This proposal simplifies a complex policy as requested by States while supporting low-income working families.
5. *Excluding combat-related military pay* – Enhanced pay from military deployment can sometimes cause families receiving food stamps to no longer be eligible for this assistance. Military personnel receive supplements to their basic pay when they serve in combat. Such special pay includes combat or hazardous duty pay which could reduce a family's benefits or make them ineligible. This policy change recognizes this problem and would ensure that military families are not penalized for doing their civic duty. It supports the families of servicemen and servicewomen fighting overseas by ensuring that their families do not lose food stamps as a result of the additional deployment income. This proposal has been a part of the President's budget for several years and was first enacted in the 2005 Appropriations Act; this farm bill proposal would make this annual policy fix permanent.

Background

Authorized by the Food Stamp Act of 1977 (the Act), the Food Stamp Program (FSP) is the cornerstone of the Nation's nutrition assistance programs which serve 1 in 5 Americans. During fiscal year (FY) 2005, the Program served approximately 26 million people in an average month with a total annual benefit cost of approximately $29 billion. The FSP increases the purchasing power of low-income families and individuals by providing electronic benefits redeemed for food in authorized stores.

The program operates in partnership with the States. The Federal Government sets national program standards for eligibility and benefits, funds all benefit costs and approximately half of State administrative expenses, and has responsibility for monitoring and oversight of program implementation, including authorization and enforcement measures associated with the redemption of benefits at authorized retail stores. State agencies, which interact directly with program participants, are responsible for eligibility certification.

Outreach to underserved populations and program integrity have been a primary focus for the Administration. At the same time that there has been an increase in participation, program integrity has also improved. In FY 2005, the FSP reached the highest level of payment accuracy in its history of 94.16 percent. The Food Stamp Program has a Quality Control System that uses a statistically valid sample of State cases to determine the accuracy of food stamp benefits and establish a national error rate. The Program has also seen progress in the area of trafficking (exchanging benefits intended for food purchases for cash), with a recent GAO report stating that trafficking has been reduced to 1 cent of every benefit dollar, down from almost 4 cents.

The purpose of the FSP is to increase the nutritional levels of low-income households who qualify based on criteria associated with income, assets, and household composition. To qualify for benefits the applicant's gross income must be less than 130 percent of poverty (e.g., $2043 per month for a family of four in 2005), and 100 percent after allowable deductions. The maximum monthly food stamp allotment ($499 for a family of four in 2005) is based on the cost of the Thrifty Food Plan, a low-cost nutritious model food plan. The Program also provides nutrition education designed to help low-income individuals choose healthy foods and active lifestyles.

FOOD STAMP PROGRAM: STREAMLINING & MODERNIZING PROPOSALS

Recommendation in Brief

Support modernization efforts of States to streamline, simplify, and improve administration of the Food Stamp Program (FSP). Revise the name of the food stamp program and de-obligate food stamp coupons to reflect that benefits are now provided electronically. Protect recipients from reimbursing States for overissuances that result from widespread systematic errors.

Problem

Many States are implementing or considering efforts to modernize and streamline their eligibility systems and business designs to improve FSP administration. In addition, many States are going to need to update or modernize their computer and data management systems as today's systems are becoming outdated. Current requirements in the FSP limit States' ability to modernize and streamline their programs.

In June of 2004, electronic benefit transfer (EBT) was implemented nationwide with food stamp participants accessing nutrition assistance through debit card technology; yet coupons are still used in rare cases, complicating financial transactions for retailers and banks. Paper food stamp coupons are a remnant of the past, yet a small amount of these coupons linger. Changes are needed to de-obligate the use of paper food stamp coupons and change the name of the program to more accurately reflect its purpose as a national food assistance program.

Recommended Solution

The Administration proposes improved administration of the food stamp program by:

1. *Recommending a name change—the Food and Nutrition Program.* State agencies administering the Food Stamp Program have been asking the Department for years to consider a name change that is more descriptive of the current Program. Stamps, later replaced by coupons, have not been used for decades and the name does not reflect the Program's mission of reducing hunger and improving nutrition among low-income people. Further, nationwide implementation of EBT as a benefit delivery mechanism has made food stamps and the Program name outdated. Finally, some stakeholders suggest that the name is a barrier to participation because of stigma, especially among the elderly. FNS began gathering public comments on a new name in June 2004. While there is no consensus on a new name, the vast majority of the comments supported a name change with certain words commonly included in the suggestions—food and nutrition.
2. *De-obligating food stamp coupons as legal tender.* Electronic Benefit Transfer (EBT) has been in place nationwide for two years. Fewer and fewer coupons are being redeemed per month; in December 2005 coupon redemptions accounted for less than .001% of total benefit redemptions. De-obligating coupons reflects the current technological realities of the Program.
3. *Prohibiting States from establishing and collecting claims from recipients for State agency caused overissuances resulting from widespread systemic errors. Require states to repay the Federal government for overissued benefits.* As States have moved to replace outdated computer systems, there have been situations where time and budget

have driven implementation of systems before they have been thoroughly tested. As a result, computer systems have generated overissuances because of design flaws; in some cases, the courts have become involved (e.g. Colorado) and judges have ordered States not to collect overissuances from recipients when the overissuance was an agency error (computer generated) and not a client error. However, current Federal law requires States to establish and collect claims from recipients. This proposal would recognize the unique situation of systemic errors caused by State agencies in the establishment and collection of over-issuances while still holding States responsible for the error.

Background

Authorized by the Food Stamp Act of 1977 (the Act), the Food Stamp Program (FSP) is the cornerstone of the Nation's nutrition assistance programs which serve 1 in 5 Americans. During fiscal year (FY) 2005, the Program served approximately 26 million people in an average month with a total annual benefit cost of approximately $29 billion. The FSP increases the purchasing power of low-income families and individuals by providing electronic benefits redeemed for food in authorized stores.

The program operates in partnership with the States. The Federal Government sets national program standards for eligibility and benefits, funds all benefit costs and approximately half of State administrative expenses, and has responsibility for monitoring and oversight of program implementation, including authorization and enforcement measures associated with the redemption of benefits at authorized retail stores. State agencies interact directly with program participants, are responsible for eligibility certification.

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IMPROVE FOOD STAMP PROGRAM INTEGRITY

Recommendation in Brief

Strengthen provisions to further improve program integrity by limiting categorical eligibility to those that receive only Temporary Assistance for Needy Families (TANF) cash benefits. Allow flexibility in the assessment of retailer fines in certain circumstances. Allow the Secretary, in certain egregious trafficking cases, to seize and transfer funds to the Treasury; prohibit the exchange of food purchased with food stamp benefits for cash. Authorize USDA to charge State agencies five percent of administrative costs if the State is more than fifty percent above the national negative error rate for two consecutive years. Remove the new investment option for States sanctioned for improper payments for three consecutive years.

Problem

In June, 2004, the Food Stamp Program (FSP) transitioned from coupons to nationwide implementation of electronic benefit transfer (EBT) to issue food stamp benefits. EBT works like a debit card; participants have their benefits loaded onto the card each month and access those benefits through the purchase of eligible foods at authorized retail stores. A recent GAO report credits the technology for a reduction in trafficking (exchanging benefits for cash) to around one cent of every benefit dollar. Despite this important, positive trend, new strategies to commit fraudulent activities undermine the advantages of the electronic issuance system. Further policy changes as well as quality control system improvements would help ensure continued progress in the area of payment accuracy and proper use of nutrition assistance benefits.

Additionally, current law allows certain individuals not otherwise eligible for food stamp benefits to receive them through categorical eligibility. For example, certain states allow a person who is eligible to receive TANF in-kind services such as job training to receive food stamp benefits even though under separate food stamp eligibility criteria he/she would not be eligible. Providing benefits to those individuals not otherwise eligible for food stamp benefits limits resources available to those eligible individuals that need it most.

Recommended Solution

The Administration proposes improved program integrity by:

1. *Limiting categorical eligibility to only cash TANF or SSI assistance.* This proposal ensures that those individuals eligible for the program receive the benefits through an equitable determination of FSP eligibility while eliminating categorical eligibility for those who would otherwise not be eligible to receive benefits.
2. *Allowing assessment of fines for certain retailer violations.* USDA often receives requests from stores and their supporters, including public officials, requesting alternative penalties based on specific conditions and circumstances, but current law does not provide any flexibility related to certain retailer violations. For example, if a store clerk accepts food stamp benefits for the purchase of a non-food item without the owner's knowledge and in violation of food stamp rules and the store's policy, the store owner must be disqualified from accepting food stamps in accordance with current law. Regardless of the fact that the owner may have been an authorized retailer for 30 years without any previous violation, action has been taken by the owner to correct the

problem, and there are few opportunities for participants to shop elsewhere, disqualification is required. At the same time, in an egregious trafficking situation, the maximum disqualification can be imposed, but no additional penalties such as assessment of fines are allowed. In other words, under current law, USDA does not have the necessary flexibility to assess fines in lieu of disqualification or to assign appropriate disqualification timeframes, or to impose additional fines beyond the maximum disqualification. Instead, current law specifies minimum and maximum disqualification timeframes without opportunity to assess appropriate penalties in cases where particular circumstances might be considered.

3. *Allowing the Secretary, in certain egregious trafficking cases, to seize and transfer to the Treasury food stamp funds prior to retailer's settlement in cases where expedited disqualification is warranted.* Current law allows retailers to continue their fraudulent activities while enforcement actions are taking place even if those violations are particularly egregious. By allowing the Secretary to seize and transfer food stamp funds to the Treasury in the most egregious cases, trafficking retailers are hurt more quickly where it matters—in their pocketbooks. This proposal increases effectiveness by immediately stopping the flow of funds that allow retailers to continue to finance their fraudulent activities.
4. *Prohibiting the exchange of food purchased with food stamp benefits for cash by making it an intentional program violation on the part of recipients.* Recently, USDA has received an increasing number of reports of food stamp recipients exchanging food purchased with food stamp benefits for cash. For example, a recipient purchases a large number of soft drinks and then sells them at a discount outside the store. In a recent incident, multiple recipients were purchasing baby formula with food stamp benefits at one store and selling the formula to another store. While contrary to the intent of the Program, such actions are not currently identified in the Food Stamp Act of 1977 as an action that leads to disqualification.
5. *Charging State agencies 5 percent of administrative costs if the State is more than 50% above the national negative error rate for two consecutive years.* A negative error occurs when an applicant for benefits is inappropriately terminated, suspended, or denied food stamps. While the active error rate (overpayment or underpayment to food stamp recipient) has potential liabilities associated with being above the national average, there is currently no sanction associated with the negative error rate. Both the active and negative error rates do have associated high performance bonuses based on excellent administration of the program. The negative error rate has been rising over the last couple of years; this provision indicates the importance of proper administration of the program. This proposal would require States to pay the associated sanction when their negative error rate is 50% above the national average for two consecutive years.
6. *Removing the new investment option for those States sanctioned for improper payments for 3 consecutive years* – This proposal emphasizes the importance of State accountability and expected results associated with improper payments while still maintaining the three consecutive years as the measure for having to pay the liability associated with the improper payments. Specifically, this proposal would require States pay their “at risk” amount for the second year as well the entire third year liability amount. A state's "at risk" amount is defined as a portion of its improper payments liability. This at risk liability is placed in abeyance and may be forgiven if the State

improves program payment accuracy in accordance with a written agreement between the State and USDA by the third year. These funds can also be changed from "at risk" and invested in new state improvements in program administration (the so-called investment option). These new investments are State-only dollars and are not eligible for federal matching funds. This proposal would strengthen the penalties associated with improper payments by requiring the States pay their liabilities without the option of new investment of year two at risk dollars when their improper payments rates are above the formula prescribed in law for errors three years in a row.

Background

Authorized by the Food Stamp Act of 1977 (the Act), the Food Stamp Program (FSP) is the cornerstone of the Nation's nutrition assistance programs which serve 1 in 5 Americans. During fiscal year (FY) 2005, the Program served approximately 26 million people in an average month with a total annual benefit cost of approximately $29 billion. The FSP increases the purchasing power of low-income families and individuals by providing electronic benefits redeemed for food in authorized stores.

The program operates in partnership with the States. The Federal Government sets national program standards for eligibility and benefits, funds all benefit costs and approximately half of State administrative expenses, and has responsibility for monitoring and oversight of program implementation, including authorization and enforcement measures associated with the redemption of benefits at authorized retail stores. State agencies interact directly with program participants, are responsible for eligibility certification.

Outreach to underserved populations and program integrity have been a primary focus for the Administration. At the same time that there has been an increase in participation, program integrity has also improved. In FY 2005, the FSP reached the highest level of payment accuracy in its history of 94.16 percent. The Food Stamp Program has a Quality Control System that uses a statistically valid sample of State cases to determine the accuracy of food stamp benefits and establish a national error rate. The Program has also seen progress in the area of trafficking (exchanging benefits intended for food purchases for cash), with a recent GAO report stating that trafficking has been reduced to 1 cent of every benefit dollar, down from almost 4 cents.

The purpose of the FSP is to increase the nutritional levels of low-income households who qualify based on criteria associated with income, assets, and household composition. To qualify for benefits the applicant's gross income must be less than 130 percent of poverty (e.g., $2043 per month for a family of four in 2005), and 100 percent after allowable deductions. The maximum monthly food stamp allotment ($499 for a family of four in 2005) is based on the cost of the Thrifty Food Plan, a low-cost nutritious model food plan. The Program also provides nutrition education designed to help low-income individuals choose healthy foods and active lifestyles.

FOOD STAMP PROGRAM: IMPROVING HEALTH THROUGH NUTRITION EDUCATION

Recommendation in brief

Strengthen efforts to integrate nutrition education into the Food Stamp Program (FSP) by recognizing that nutrition education is a component of the program and investing $100 million to establish a competitive grants program targeted at developing and testing solutions to the rising rates of obesity.

Problem

Obesity and overweight are conditions that have reached epidemic proportions in this country. According to research, low-income individuals are particularly at risk. The outcomes of obesity and overweight are numerous and include multiple health risks such as diabetes, heart disease, and cancer.

Although nutrition education in the FSP has increased over the years, many Farm Bill Forum participants called for program changes intended to encourage healthier eating habits. For example, Inger, a registered dietician, said, “The public needs an uncompromising commitment from their government to advance nutrition knowledge and to help people apply that knowledge to maintain and improve their health…..” While Connie from Massachusetts suggested “a better approach would be the development of some sort of incentives to encourage Food Stamp recipients to purchase healthy foods.”

Recommended Solution

The Administration proposes improving the Food Stamp Program’s role in supporting positive nutrition and health outcomes for participants by:

1. Adding language to the Food Stamp Act recognizing nutrition education as a component of the Program, reinforcing the importance of nutrition education.
2. Establishing a “USDA Initiative to Address Obesity among Low Income Americans” -- a five-year $20 million per year competitive grant demonstration program to develop and test solutions to the rising problem of obesity. These efforts would include rigorous independent evaluations to identify effective approaches, such as incentives at point-of-sale for purchases of fruits and vegetables by food stamp participants, grants to connect food stamp shoppers with farmers markets, and integrated communication and education programs to promote healthy diets and physical activity. This grant program would sunset after five years.

Background

Authorized by the Food Stamp Act of 1977 (the Act), the Food Stamp Program (FSP) is the cornerstone of the Nation’s nutrition assistance programs which serve 1 in 5 Americans. During fiscal year (FY) 2005, the Program served approximately 26 million people in an average month with a total annual benefit cost of approximately $29 billion. The FSP increases the purchasing power of low-income families and individuals by providing electronic benefits redeemed for food in authorized stores.

The program operates in partnership with the States. The Federal Government sets national program standards for eligibility and benefits, funds all benefit costs and approximately half of State administrative expenses, and has responsibility for monitoring and oversight of program implementation, including authorization and enforcement measures associated with the redemption of benefits at authorized retail stores. State agencies interact directly with program participants, certify eligibility, and issue benefits.

In FY 2005, the FSP reached the highest level of payment accuracy in its history of 94.16 percent. The FSP has a Quality Control System that uses a statistically valid sample of State cases to determine the accuracy of food stamp benefits and establish a national error rate. The Program has also seen progress in the area of trafficking (exchanging benefits intended for food purchases for cash), with a recent GAO report stating that trafficking has been reduced to 1 cent of every benefit dollar, down from almost 4 cents.

The purpose of the FSP is designed to increase the nutritional levels of low-income households who qualify based on criteria associated with income, assets, and household composition. To qualify for benefits the applicant’s gross income must be less than 130 percent of poverty (e.g., $2043 per month for a family of four in 2005), and 100 percent after allowable deductions. The maximum monthly food stamp allotment ($499 for a family of four in 2005) is based on the cost of the Thrifty Food Plan, a low-cost nutritious model food plan.

The Program also funds state-provided nutrition education designed to help low-income individuals choose healthy foods and active lifestyles. The goal of Food Stamp Nutrition Education (FSNE) is to improve the likelihood that FSP participants and applicants will make healthy choices within a limited budget and choose active lifestyles consistent with the current Dietary Guidelines for Americans and the Food Guide Pyramid. States provide Food Stamp nutrition education plans to USDA for approval that consider the specific needs of their low-income population. USDA reimburses States 50 percent of the administrative costs associated with nutrition education materials and activities.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

Recommendation in Brief

Make TEFAP State plans permanent and provide national uniform rules for TEFAP contracts allowing greater competition for program participation among local organizations, including faith-based organizations. Increase the availability of fruits and vegetables through the TEFAP Program.

Problem

The requirement to file TEFAP State plans every four years is burdensome for administering State agencies and is not consistent with the State plan requirements for many other nutrition programs. For example, the National School Lunch Program, Commodity Supplemental Food Program, Summer Feeding Program, and After School Snack Program all require plan updates only as warranted.

Additionally, TEFAP administering agencies are not required to use a competitive solicitation process for selecting local organizations to participate in TEFAP. As a result, many of the same organizations continue to participate year after year unless administrative problems occur. Failure to provide for a competitive solicitation process results in a barrier to certain local organizations, including faith-based organizations, that wish to participate in TEFAP. The lack of competition may result in a less efficient and effective system to distribute commodities within each State.

Until recently, TEFAP received large amounts of bonus donations of fruits and vegetables. Since 2005, bonus donations, including fruit and vegetable donations, have declined. As a result, TEFAP has not provided emergency feeding organizations the quantity of fruits and vegetables that sponsor organizations and its beneficiaries might expect. TEFAP can be a source of foods for the low-income population, and providing a stable and sufficient source of fruits and vegetables through TEFAP is consistent with the direction of the 2005 Dietary Guidelines for Americans.

Recommended Solution

The Administration proposes the following changes to the TEFAP program:

1. *Make TEFAP State plans permanent, requiring States to submit revisions to the plan only when warranted by changes in the State.* This approach is consistent with State plan requirements for other commodity programs and the child nutrition programs.
2. *Require States to use a competitive selection process for selecting local organizations and re-compete grants at least once every three years.* Requiring States to use the competitive solicitation process for selecting local organizations with which they enter into contracts for TEFAP would help to ensure that the most efficient and effective system is used to distribute commodities within the State and would likely result in potential recipient agencies lowering their charges for services to food pantries and soup kitchens in order to secure the contract with the State agency. A competitive process also

will remove barriers to the participation of local organizations, including faith based organizations.

3. *Increase the amount of fruits and vegetables made available to TEFAP beneficiaries.* The Department's proposed increase in fruit and vegetable purchases under Section 32 (see paper entitled, "Increasing Purchases of Fruit and Vegetables for Nutrition Assistance Programs" on pages 168-169), would result in a sufficient and on-going stream of fruits and vegetables available to the low-income recipients of TEFAP, thus bringing their diet more in line with the recommendations of the Dietary Guidelines.

Background

The TEFAP Program helps supplement the diets of low-income Americans, including elderly individuals, by providing participants with emergency food and nutrition assistance at no cost to the recipient. The program provides food aid in all 50 States.

USDA makes commodity foods available to State agencies for distribution to local organizations, which make the food available to eligible individuals for household consumption, or prepare and serve meals in congregate settings. Over 50 types of food were made available in FY 2006, including canned and dried fruits, canned vegetables, meat, poultry, fish, and pasta.

To be considered eligible for TEFAP, recipients of food for home use must meet income eligibility criteria set by the State agency. Recipients of prepared meals at congregate sites are not subject to an income test.

Authorized by the Food Stamp Act of 1977 and the Emergency Food Assistance Act of 1983, TEFAP operates as a Federal-State partnership. The Federal government provides commodities and administrative funds to State agencies. In addition to the commodities purchased with TEFAP appropriations, commodities purchased under agricultural support programs are made available to States for distribution through TEFAP. State agencies are responsible for establishing a distribution system and for allocating the resources within the State. In order to participate, State agencies must submit a State plan every four years. The State agencies provide food to local agencies that they select, usually food banks, which in turn distribute the food to soup kitchens and food pantries that serve the public.

In FY 2006, Congress appropriated $189.5 million for TEFAP. Of the total appropriation, $140 million was made available to purchase food and $49.5 million was provided for administrative support to State and local agencies.

FOOD DISTRIBUTION PROGRAM ON INDIAN RESERVATIONS (FDPIR)

Recommendation in Brief

Increase funding by $27 million over 10 years to better reflect the actual administrative costs of the Food Distribution Program on Indian Reservations (FDPIR) and provide a structured method for allocating administrative funds among the Indian Tribal Organizations (ITO). Align nutrition assistance program disqualification policies to ensure that those barred from participation in FDPIR for intentional program violations are also disqualified from participation in the food stamp program.

Problem

The current allocation of FDPIR administrative funding does not correlate with participation levels. As a result, ITOs with higher FDPIR participation levels may not receive administrative funds proportionate to the number of persons served.

Individuals who are disqualified from FDPIR for intentional violations may be eligible for the FSP, which provides comparable benefits to participants.

Recommended Solution

The Administration proposes revising the current FDPIR formula to provide a structured and equitable method for allocating administrative funds among ITOs and States participating in FDPIR. Additionally, an increase in funding is proposed for FDPIR administrative costs to better reflect the actual participation rates in FDPIR. This proposal is consistent with the recommendations from a FDPIR work group charged with identifying plans to reduce regional disparities in the administrative funding provided per participant. Re-allocating funds based primarily on program participation has wide support. An estimated $26 million increase over 10 years in the level of FDPIR funding for administrative costs would ensure that any change to the current funding formula would allow all states or ITOs to continue their current allotments or receive a modest increase depending on their level of participation.

This proposal would ensure a more consistent level of service across FDPIR programs and would improve program access, promote healthy eating, and enhance program integrity. Currently, some tribes are better capable of serving their participants because they benefit from the historical inequity in the distribution of existing administrative resources. Many ITOs cannot provide a wide variety of foods or readily serve eligible participants because they lack funds needed to buy and maintain expensive equipment and other items. For example, some programs do not offer fruits, vegetables and meats because they lack the ability to properly store them, and their participants are not receiving as nutritious a food package as they could be. Some programs cannot serve homebound or individuals living in remote areas because they do not have reliable delivery equipment. FDPIR was designed to serve participants who may be located in areas where access to stores is difficult so it is important to be able to effectively transport foods. Food safety also is a concern; programs that cannot maintain adequate storage facilities risk providing spoiled or damaged foods to participants.

Additionally, the Administration proposes expanding the list of Food Stamp Program (FSP) disqualifications to include persons disqualified from FDPIR for intentional program violations. This proposal will support program integrity by ensuring disqualified individuals cannot participate in either program.

Background

FDPIR provides commodity foods to low-income American Indian and non-Indian households that reside on a reservation, and in other approved areas. There are 257 tribes receiving benefits through 98 Indian Tribal Organizations (ITO) and 5 State agencies.

Each month, participating households receive a food package (generally by pick-up at a designated site or home delivery) to help them maintain a nutritionally balanced diet. Commodities are distributed to eligible households from warehouse facilities located on reservations. In some cases, trucks are dispatched from the warehouse to serve households in remote locations on or near reservations. Eligible households may choose from over 50 types of food, including meats and fish, fruit, vegetables, grain and oil products, and a range of prepared foods. Participants also receive information about nutrition, food storage, sanitary food preparation methods, and suggestions for recipes using donated food.

Eligible individuals are part of a household residing on a participating reservation and meet income and resource eligibility criteria. FDPIR eligibility criteria are similar to those used for the FSP, but differ in that the monthly benefit level is not based on a sliding income scale—the amount of food an eligible household receives each month under FDPIR is based exclusively on the size of the household.

Authorized by the Food Stamp Act of 1977 and the Agriculture and Consumer Protection Act of 1973, FDPIR is operated as a partnership between USDA and participating ITOs and State agencies. Congress originally established FDPIR as an alternative to the FSP for households residing in remote areas of reservations where FSP-authorized food stores were not readily accessible. In areas where both FDPIR and the FSP are available, households may not participate simultaneously in both programs, although households may switch from one program to the other.

The Federal government pays 100 percent of the cost of commodities distributed through the Program, along with cash payments to distributing agencies to assist them in meeting the program’s administrative expenses, such as local warehousing and transportation of commodities, utilities, salaries, and equipment. The current methodology for allocating administrative funds is based on historical precedent and results in some regions and ITOs receiving administrative funding well above or below the national per participant average. For FY 2006, Congress appropriated $79,500,000 for FDPIR, which was sufficient to provide nutrition assistance to an average of 101,000 persons per month.

SENIOR FARMERS' MARKET NUTRITION PROGRAM (SFMNP)

Recommendation in Brief

Exclude the value of the Senior Farmers' Market Nutrition Program (SFMNP) benefits when determining eligibility for any Federal or State means-tested programs. Prohibit States from participating in the SFMNP if state or local sales tax is collected within the State on food purchased with SFMNP benefits.

Problem

The value of the SFMNP benefit must currently be counted as income for eligibility determination in other means tested programs. This requirement is inconsistent with all other USDA nutrition assistance programs, which have specific statutory authority to exclude the value of nutrition assistance benefits when determining eligibility for federal or state means tested programs. The 2002 farm bill authorized the SFMNP for fiscal year (FY) 2003 through FY 2007 and provided funding at $15 million for each of those years. This legislation gave USDA the authority to develop regulations for the operation and administration of the SFMNP. However, it provided no statutory authority to exclude SFMNP benefits from other programs' eligibility requirements. Also, SFMNP benefits are not consistent with the benefits in other Federal nutrition programs because the food purchased with SFMNP benefits is not exempt from state and local sales tax.

Recommended Solution

The Administration proposes establishing the statutory authority to:

1. e*xclude the value of the SFMNP benefits when determining eligibility for any federal or state means-tested program*. This recommendation would ensure that the value of the benefits provided to eligible recipients could not be considered as income in the process of determining eligibility for any other Federal or State program, such as Food Stamps, TANF, Energy Assistance, and Housing Assistance. In FY 2005, the average annual SFMNP benefit per recipient was $33*;* and
2. *prohibit States from participating in the Senior Farmers' Market Nutrition Program if state or local sales tax is collected within that state on food purchased with SFMNP benefits.* This recommendation would align the state and local tax status of Senior Farmers' Market benefits with other federal nutrition assistance programs.

Background

The SFMNP provides low-income seniors with coupons that can be exchanged for eligible fresh, nutritious, unprepared, locally-grown fruits, vegetables, and herbs at farmers' markets, roadside stands, and community supported agriculture (CSA). The Program is designed to (a) improve the diets of low-income seniors and (b) increase the consumption of agricultural commodities by expanding, developing, or aiding in the development and expansion of domestic farmers' markets, roadside stands, and CSA.

Benefits to seniors generally do not exceed $50 per growing season. Seniors who are at least 60 years old and who have household incomes of not more than 185 percent of the federal poverty income guidelines are the targeted recipients of the SFMNP.

Authorized by the 2002 farm bill, the SFMNP is operated as a Federal-State partnership. The program operates in limited areas of participating States. The Federal government provides funds to participating States, which support the SFMNP benefit provided to seniors and, starting January 2007, State administrative costs.

In FY 2006, 46 states and federally recognized tribal governments operated the program. In 2005, the program provided coupons to 752,699 low-income seniors for products available from 14,668 farmers at 2,663 farmers markets as well as 2,000 roadside stands and 237 CSA markets.

PROMOTING HEALTHFUL DIETS IN SCHOOLS

Recommendations in Brief

Support school efforts to provide meals based on the most recent Dietary Guidelines for Americans. Invest $6 million in mandatory funding to conduct a survey of foods purchased by school food authorities with Federal cash assistance once every 5 years. Provide $500 million of new mandatory funding over ten years for the purchase of additional fresh fruits and vegetables for use in the National School Lunch and Breakfast Programs. Increase Section 32 spending on fruits and vegetables by $2.75 billion over 10 years.

Problem

Obesity rates among school-age children continue to rise and schools can play a greater role in promoting healthful diets and regular physical activity. The 2005 Dietary Guidelines for Americans recommend even higher whole grain, low-fat dairy, and fruit and vegetable consumption levels for most Americans. Yet only one in five Americans consumes the recommended amount of fruit each day, and children under age 18 generally consume 50 percent or less of the recommended level for fruits and vegetables. Increased intakes of fruits, vegetables, whole grains, and fat-free or low-fat milk and milk products are likely to have important health benefits for most Americans, including school children.

Schools use their cash assistance to purchase the large majority (approximately 80 percent) of the food for school meals, but no current data are available to know what foods are being purchased. Without good information about the foods schools are purchasing, it is difficult for USDA to provide technical assistance to help schools select healthful items that contribute to the goals of the most recent Dietary Guidelines.

Recommended Solution

The Administration proposes the following program modifications to support school efforts to offer meals based on the most recent Dietary Guidelines for Americans:

1. *Conduct a survey of foods purchased by school food authorities with Federal cash assistance once every 5 years*. The most recent data on school food purchases are a decade old. These data would help USDA efforts to 1) provide guidance and technical assistance to school food professionals in the implementation of new rules intended to conform school meal patterns to the most recent Dietary Guidelines for Americans; 2) better manage the types and varieties of commodities procured by the Department on behalf of schools; and 3) assess the economic impact of school food purchases on various commodity sectors.
2. *Provide an additional $50 million annually for the purchase of fruits and vegetables for school meals.* These funds would represent a net increase in the total purchase of fruits and vegetables for the National School Lunch Program over levels available under any other authority. At the Secretary's discretion, a portion of the new funds should be allowed to be transferred to Department of Defense (DOD) for the purchase of additional fresh fruits and vegetables.
3. *Increase the overall Section 32 fruit and vegetable purchase minimum to $2.75 billion over 10 years.*

Programs and policies that improve children's access to fruits and vegetables support USDA's goal to promote dietary patterns that reflect the Dietary Guidelines for Americans and the MyPyramid for Kids. The consumption of fruits and vegetables contribute to a good diet and will serve to ameliorate the obesity rates among Americans.

Background

The National School Lunch Program (NSLP) provides USDA commodities and cash assistance to States for lunches served to students during lunch periods at school and for snacks served to children participating in after school care programs. States are reimbursed for the number of lunches and snacks served to children in participating schools that meet program requirements. In FY 2005, an average of 30 million children received program meals each school day of which about 59 percent are served free or at a reduced price.

Schools use USDA's cash assistance to purchase the foods served in school meals and to pay for direct and indirect allowable costs, such as labor. In addition to cash reimbursements, schools are entitled by law to receive commodity foods, called "entitlement" foods, at a value of 16.75 cents for each meal served in FY 2006-2007. Schools can receive "bonus" commodities when they are available from surplus agricultural stocks. USDA provides schools with USDA commodities to complement the purchased foods. Approximately 80 percent of the foods served are purchased directly by school districts and the remaining 20 percent are provided in the form of entitlement foods to schools by USDA. All foods, whether purchased commercially or provided by USDA, contribute to school meals that must meet specific nutritional standards.

The Richard B. Russell National School Lunch Act (Act) requires participating schools to serve meals that are consistent with the goals of the most recent Dietary Guidelines for Americans and that provide, on the average over a week, 1/3 of the daily recommended dietary allowance. Administering State agencies and school districts provide on-going oversight of the school meals to ensure that every meal meets the nutrition standards set forth in regulations and statute. USDA is in the process of developing a proposed regulation to better align school meal requirements with the 2005 Dietary Guidelines for Americans. While school meals must meet the Federal nutrition requirements, decisions about what specific foods to serve and how they are prepared are made by local school food authorities.

In an ongoing effort to increase the consumption of fruits and vegetables, the 2002 farm bill directed USDA to use at least $200 million of the total funds available to USDA to purchase commodities for the NSLP toward the purchase of fruits and vegetables. USDA must spend at least $50 million of the $200 million to make fresh fruits and vegetables available to schools. Since 1995, USDA has contracted with the DOD, which purchases and delivers perishable fruits and vegetables for the NSLP.

TITLE V
CREDIT

SUMMARY OF CREDIT TITLE REFORM

Recommendations In Brief
Improve farm bill financial credit policies for farm borrowers, particularly beginning and socially disadvantaged producers.

Problem
The average age of farmers continues to climb, creating questions about whether the next generation of producers is equipped to replace the wave of aging farmers as they retire. Barriers to entering production agriculture are high, which is especially burdensome for beginning and socially disadvantaged farmers who have limited financial assets. For example, in 2002, the value of land and buildings averaged $595,000 per principal operator 35-years-old and younger. Access to adequate loan funds can help to level the playing field for these farmers. Loans authorized through the farm bill credit title can play a unique role in supporting first-time farm buyers.

Finally, certain legislative requirements of farm loan programs have not been updated in decades. With the changing dynamics of today's production agriculture, these policies require updating. For example, the two direct loan limits of $200,000 are too rigid and outdated, not having been updated since the 1970s and 80s. Much has changed in over two decades – land prices are higher, equipment is larger and more expensive, and fuel, fertilizer, and other input costs are higher – yet the limits have remained stagnant.

These issues were discussed nationwide during the USDA Farm Bill Forums. For example, Ed from Ohio stated, "The challenges facing new farmers is nearly impossible to overcome…Come up with something innovative that will allow my kids to reach their dream of farming." And Andy, from Idaho, spoke from personal experience, "as a young farmer I used the FSA Guaranteed Loan Program. I recently was able to purchase my first piece of ground with the help of it. However, I'm up to the ceiling, and if I want to expand like I need to, to stay economically viable, I think it would help to raise the ceiling."

Recommended Solution
The Administration is recommending changes to Title V – entitled "Credit." Following is a list of the major components of the package.

1. Double the statutory target for the percentage of USDA direct operating loans that will be prioritized to assist beginning and socially disadvantaged farmers. Prioritize 100 percent of direct farm ownership loans to first meet the needs of beginning and socially disadvantaged farmers. Overhaul the federal repooling procedures to ensure that these targets are reserved only for beginning and socially disadvantaged farmers to the maximum extent possible. (For further information, see the proposal entitled "Loans Targeted to Beginning and Socially Disadvantaged Farmers" on pages 108 – 109.)
2. Enhance the existing Beginning Farmer and Rancher Downpayment Loan Program to increase the opportunities for the next generation of production agriculturalists. Reduce the four percent interest rate to two percent. Defer the first annual payment for one year.

Eliminate the $250,000 cap on the value of property that may be acquired. Decrease the minimum producer contribution from 10 percent of the property purchase price to five percent and add socially disadvantaged farmers and ranchers as eligible applicants. (For further information, see the proposal entitled “Beginning Farmer And Rancher Downpayment Loan Program” on pages 110 – 111.)

3. Increase the existing limits of $200,000 for direct ownership (FO) loans and $200,000 for direct operating loans (OL) to a maximum of $500,000 indebtedness for any combination of the two loan types. (For further information, see the proposal entitled “FSA Direct Loan Limits” on pages 112 – 113.)

LOANS TARGETED TO BEGINNING AND SOCIALLY DISADVANTAGED FARMERS

Recommendation in Brief

Double the statutory target for the percentage of USDA direct operating loans (OL) that will be prioritized to assist beginning farmers and socially disadvantaged (SDA) farmers. Prioritize 100 percent of direct farm ownership (FO) loans to first meet the needs of beginning and SDA farmers. Overhaul the federal repooling procedures to ensure that these targets are reserved only for beginning and SDA farmers to the maximum extent possible.

Problem

The barriers to entering production agriculture are high. With an increasingly aging farm population, these barriers threaten our next generation of agriculturalists. Access to adequate loan funds is a significant barrier to entry for beginning and SDA farmers. These farmers frequently have limited financial means, or have a limited track record in business operations. As a result, commercial loans can be difficult to obtain for beginning and SDA farmers. During USDA Farm Bill Forums, young producers and commercial lenders alike addressed the issue of equity. Brad in Wisconsin said, "The biggest challenge I face as a banker when we address young farmers is lack of equity as it relates to the amount of capital investment it takes you to get into agriculture."

Recommended Solution

The Administration recommends doubling the statutory target for direct OL funds for beginning and SDA farmers from 35 percent to 70 percent. Additionally, we propose increasing the direct FO target for beginning and SDA farmers from 70 to 100 percent. Increasing the target levels would provide additional assurance that beginning and SDA farmers have financing options to purchase farmland and then operate those farms.

Under current law, thirty days before the end of the fiscal year, any unused beginning and SDA direct loan funds are repooled from the States. Section 5315 of the 2002 farm bill required that repooled SDA operating loans must first be re-distributed to those states that have unmet SDA operating loan need. The Administration proposes to expand this repooling method to all other USDA SDA loan programs – direct FO, guaranteed FO, and guaranteed OL. Additionally, we propose a similar repooling regime for all types of USDA beginning farmer loan programs – direct OL and FO as well as guaranteed OL and FO.

Under the new policy, unutilized targeted loan funds would be repooled from the states on the established lifting date and re-distributed in the following order –

1. Unmet SDA or beginning farmer need in other states within type of loan (i.e. repooled SDA direct FO funds used only to address SDA direct FO unmet needs within other states)
2. Unmet SDA or beginning farmer need in other states within category of loan (i.e. repooled SDA direct FO funds used only to address unmet need for any type of SDA loan within other states – direct OL as well as guaranteed FO or OL)

3. Unmet SDA or beginning farmer need in other states between the two categories (i.e. repooled SDA loan funds could be used to meet unmet beginning farmer loan needs and vice versa)
4. Unmet general need within the state of origin
5. Unmet general need nationwide

This new repooling strategy will require additional time for USDA to administer; thus we recommend the target lifting date for these loans be changed from September 1st to August 15th.

Background

USDA loan funds are appropriated by Congress each year. The amount appropriated in some years does not allow USDA to fund all the loan applications received. Beginning farmers often have more difficulty obtaining financing because they cannot meet commercial lender financial requirements. A relatively small number of beginning farmers are entering production agriculture, and they often experience financial difficulties attempting to get established.

Existing beginning farmer funding targets for USDA loans are specified by law as follows:

Program	Funds Targeted	Proposed New Target	Current Date Target Lifted	Proposed New Date Target Lifted
direct FO	70 percent	100 percent	September 1	August 15
direct OL	35 percent	70 percent	September 1	August 15
guaranteed OL (regular)	40 percent	40 percent	April 1	April 1
guaranteed OL (interest assistance)	15 percent	15 percent	March 1	March 1
guaranteed FO	25 percent	25 percent	April 1	April 1

BEGINNING FARMER AND RANCHER DOWNPAYMENT LOAN PROGRAM

Recommendation in Brief

Enhance the existing Beginning Farmer and Rancher Downpayment Loan Program to increase the opportunities for the next generation of production agriculturalists to succeed.

Problem

In 2002, farms with over $10,000 in annual sales and that were operated by individuals under 35 years of age accounted for less than 7 percent of all farms, as compared to 19 percent in 1982. Meanwhile, the share of farms with over $10,000 in sales operated by farmers over 65 increased from 14 to 25 percent. The sharp decline in young farmers has raised concerns that an insufficient pool of new entrants will be available to replace a large and growing pool of retiring farmers.

The cyclical and highly variable nature of farm income creates major challenges for highly leveraged first-time farm buyers. Even when such producers make diligent use of available risk management tools, they experience significant difficulty servicing high levels of debt. This debt service burden often consumes needed operating capital, and results in poor performance or failure.

The existing "Beginning Farmers and Ranchers Downpayment Loan Program" was designed to help mitigate this situation. However, several statutory requirements have limited its use among some beginning agriculturalists. Concerns expressed during USDA Farm Bill Forums included the interest rate being too high, the term being too short, the initial out-of-pocket investment of the beginning producer being too high, and the maximum loan value cap being too low to start a commercially viable farm. For example, the current maximum property value of $250,000 would only allow a beginning farmer to purchase 105 acres of cropland on average (i.e. average cropland value of $2390 per acre times 105 acres equals approximately $250,000). This situation often relegates beginning farmers into an untenable position – forced to purchase the cheapest, most marginal land or attempt to make a living on a less than commercially-viable-sized farm.

In addition, socially disadvantaged (SDA) citizens face many of the same barriers to entry as beginning farmers and ranchers, yet federal programs designed to provide assistance are not always effective.

Recommended Solution

The Administration proposes enhancing the existing Beginning Farmers and Ranchers Downpayment Loan Program in several ways.

1. Change the four percent interest rate to two percent.
2. Defer initiation of first annual payment for one year (i.e. Current law requires repayment in 15 equal installments starting on year one; this proposal would defer the first installment to year two allowing the loan to be repaid in 16 years, instead of 15.)
3. Eliminate the $250,000 cap on the value of property that may be acquired by a beginning farmer wishing to obtain a downpayment loan. Replace it with a maximum

downpayment loan amount of $200,000. This proposal at a minimum doubles the potential beginning farmer or rancher's buying power. (Current law allows a downpayment loan of no more than 40 percent of the $250,000 property value cap, which equates to a downpayment loan of no more than $100,000.)

4. Decrease the minimum beginning farmer or rancher contribution from 10 percent of the property purchase price to five percent.
5. Add socially disadvantaged (SDA) farmers and ranchers as eligible applicants for this program.

Background

Many have raised questions about the adequacy of the future workforce to farm the nation's agricultural lands. There is concern about the fact that there are fewer young, new farm entrants than there are older retiring farmers. Establishing succeeding generations of farmers is an on-going concern. Potential new farmers often face significant barriers to entry. An enhanced federal downpayment program would allow beginning farmers more flexibility to cope with income volatility and increase the likelihood of establishing new successful farm businesses.

Section 310E of the Consolidated Farm and Rural Development Act (CONACT) authorizes the "Beginning Farmers and Ranchers Downpayment Loan Program." This program allows beginning farmers and ranchers to borrow up to 40 percent of the lower of the purchase price or appraisal value. Interest rates are statutorily set at four percent for a maximum loan period of fifteen years. Under the program, the beginning farmer or rancher must contribute a downpayment of at least ten percent of the farm or ranch purchase price. Additionally, the maximum value of the property to be acquired cannot exceed $250,000. Socially disadvantaged farmers are currently not eligible for the program unless they meet the beginning farmer and rancher criteria.

FSA DIRECT LOAN LIMITS

Recommendation in Brief

Increase the existing limits of $200,000 for direct farm ownership (FO) loans and $200,000 for direct operating loans (OL) to a maximum of $500,000 indebtedness for any combination of the two loan types.

Problem

The maximum amount an individual may receive in FSA Farm Loan Programs is specifically prescribed in the Consolidated Farm and Rural Development Act (CONACT). The maximum direct loan amounts specified in the CONACT have not kept pace with increases in the cost of farm land and production inputs. The CONACT direct operating loan limits were last increased in 1984 when the limit went from $100,000 to its current $200,000 limit. Direct FO loan limits were increased from $100,000 to $200,000 in 1978. These loan levels have become insufficient to meet the credit needs of medium-sized family farmers.

During the USDA Farm Bill Forums, producers from across the country commented on the limiting effects of decades old loan limits. Mike from Ohio said, "The current limits of $200,000 for farm loans and $200,000 for operating loans were set over 20 years ago. Production costs and real estate values have greatly increased over the past 20 years…we think the loan limit should be increased."

Recommended Solution

Increase the existing limits of $200,000 for direct FO and $200,000 for direct operating loans to a maximum of $500,000 for any combination of the two loan types. The higher, combined limit will allow a better matching of loan type, amount, and purpose to an individual applicant's credit needs. It will also improve access to capital, and therefore the competitiveness, of beginning farmers and other FSA loan applicants.

A similar action taken in 1998, to establish a combined total limit for guaranteed loans, has been effective.

Background

Since the last increase in the direct FO limit, farmland values have increased significantly. The current loan limit in the direct FO program places many FSA farm loan applicants at a disadvantage when competing with other potential buyers for farmland. FSA applicants characteristically have limited equity and lower net incomes, which prevent them from securing commercial loans.

Input costs for production agriculture and the price of machinery have risen dramatically since the last increase in the direct operating loan limit in 1984. These higher outlays equate to elevated levels of capital investment needed to initiate and sustain a family farming operation. Access to financial capital for beginning farmers is limited by the level of risk and return compared to other lending opportunities for rural banks. The present direct OL limit does not meet the credit needs of an increasing number of farm families and inhibits their efforts to operate and improve the competitiveness of their farm operations.

TITLE VI
RURAL DEVELOPMENT

SUMMARY OF RURAL DEVELOPMENT TITLE REFORM

Recommendations In Brief
Streamline and increase funding for programs to enhance rural health care and other public services that are vital to our rural communities.

Problem
Without sufficient infrastructure, rural communities struggle to maintain basic services and an appropriate quality of life for rural residents. Rural communities often face serious drinking water issues, limited resources for first responder services, and difficulty attracting broadband Internet providers. Rural communities must maintain the services necessary to attract commercial businesses with good jobs in order to slow the pace of out-migration. As Gabe from California stated, "small cities in rural areas have a hard time being able to provide that quality of life for its residents." USDA programs designed to help mitigate these challenges sometimes overlap, leading to a complex maze for rural residents to navigate.

Additionally, many rural residents live in remote or outlying areas, making it more difficult for them to access needed services. For example, extended travel times for ambulances and long distances to reach emergency rooms can literally mean the difference between life and death in the critical moments following a health emergency. Compounding the situation, rural hospitals often struggle to attract and maintain adequate health care providers and specialists.

While the unmet need is substantial in these rural communities, the programs authorized by the rural development title can help these communities to meet the needs of their citizens. USDA heard almost unanimous support for these programs during Farm Bill Forums throughout the country. For example, Ken from Wisconsin noted, "As I drove down here, I passed scores of rural communities, farming communities, that have benefited from the Rural Development Loan and Grant Programs….As you know a strong farming community will support a strong farming industry." And Rich, of Illinois added, "We also need a farm policy that addresses the challenges faced by rural communities. To remain competitive and productive, farmers and our rural neighbors need access to 21st Century broadband… (and) rural communities face challenges to hold onto the businesses and services…for the next generation."

Recommended Solution
The Administration is recommending several proposed changes to Title VI of the farm bill – entitled "Rural Development." Following is a list of the major components of the package.

1. Complete the reconstruction and rehabilitation of all 1,283 certified Rural Critical Access Hospitals within the five years covered by the farm bill. This proposal would invest $85 million to support $1.6 billion in guaranteed loans and $5 million for grants. (For further information, see the proposal entitled "Address Backlog of Rural Critical Access Hospital Needs" on pages 117 – 118.)
2. Provide an additional $500 million to reduce the backlog of applications for Rural Development water and waste disposal grants and direct loans, emergency community water assistance grants, Community Facilities loan and grant programs that assist rural first

responders, broadband access loans, and distance learning and telemedicine grants. Reauthorize the Broadband Access Program and the Distance Learning and Telemedicine Program. (For further information, see the proposal entitled "Enhancing Rural Infrastructure" on pages 119 – 121.)

3. Consolidate the legislative authorities for certain rural development programs to add more flexibility. Create more measurable performance standards for the programs and make them easier for USDA customers to use. (For further information, see the proposal entitled "Streamline Rural Development Programs" on pages 122 – 123.)

ADDRESS BACKLOG OF RURAL CRITICAL ACCESS HOSPITAL NEEDS

Recommendation In Brief

Complete the reconstruction and rehabilitation of all 1,283 certified Rural Critical Access Hospitals within the five years covered by the farm bill. This proposal would invest $85 million to support $1.6 billion in guaranteed loans and $5 million for grants.

Problem

In the critical moments following a farm accident, heart attack, or other health emergency, time wasted attempting to reach an emergency room or other critical care facility can literally mean the difference between life and death. Unfortunately, many rural residents live in remote or outlying areas that lack reasonable access to critical health care services. These essential services are more than a hundred miles away for some rural residents.

In 2005, a committee report of the National Academy of Sciences Institute of Medicine (IOM) found that rural first-responder emergency services confront major challenges including sizable geographic distances between patients and trauma centers. Additionally, the IOM noted that rural hospitals struggle, even more so than urban hospitals, to attract and maintain adequate numbers of certain health care professionals.

Comments submitted during USDA's Farm Bill Forums urge the department to expand assistance to these hospitals. Kathy of Washington State said, "Rural communities without a strong healthcare infrastructure cannot attract new industry or new residents… The success of the Critical Access Hospital program in addressing serious operational budget crises must be matched with programs recognizing the growing back log of unfunded maintenance and replacement needs. A strong healthcare infrastructure is necessary as we care for our growing population of retirees and keep rural communities attractive to growing families and businesses."

Recommended Solution

The Administration proposes $1.6 billion in direct and guaranteed loans to complete the reconstruction and rehabilitation of all 1,283 currently certified Rural Critical Access Hospitals within the five years covered by the farm bill.

Since fiscal year 2004, the USDA Community Facilities Programs have provided $260 million in loans and loan guarantees to support 53 rural critical access hospitals. Because the credit subsidy costs for Community Facilities direct and guaranteed loans are very low (6.4 percent for direct and 3.7 percent for guaranteed), it would take a relatively small amount of investment to address this problem.

The Administration's proposal would require $85 million in mandatory spending to supplement funding for the USDA Rural Development Community Facilities programs. With a mix of direct and guaranteed community facilities loans, $80 million in budget authority will support $1.6 billion in loans needed to meet the identified capital need of these hospitals over the life of the farm bill. The additional $5 million would be available for grants to meet needs not covered by the loan programs.

Background

Congress enacted the Medicare Rural Hospital Flexibility Program as a part of the Balanced Budget Act of 1997 to encourage the creation of a rural critical access hospital system. Under this program, a hospital with a critical access designation can get higher reimbursement rates under Medicare, which can include a component for capital improvements. As of January 2007, there were 1,283 certified Critical Access Hospitals. These critical access hospitals, as a group, need financial assistance for capital investments to remain viable. USDA rural development experts estimate that the capital needs of these hospitals are approximately $1.6 billion.

ENHANCING RURAL INFRASTRUCTURE

Recommendation In Brief

Provide an additional $500 million to reduce the backlog of applications for Rural Development water and waste disposal grants and direct loans, emergency community water assistance grants, Community Facilities loan and grant programs that assist rural first responders, broadband access loans, and distance learning and telemedicine grants. Reauthorize the Broadband Access Program and the Distance Learning and Telemedicine Program.

Problem

Without sound infrastructure, a rural community cannot provide the basic services required to ensure a good quality of life or encourage sustainable economic development. Rural communities, especially the smallest rural communities, have substantial unmet needs for basic infrastructure assistance. Many of these rural communities are facing serious drinking water issues as they work to meet increasingly stringent quality standards. These communities often lack the resources to find better water sources, thoroughly clean the drinking water they distribute, and properly treat the waste water produced by the community. Some of the most rural states lack the funds to provide enough assistance to these communities to meet this challenge. As a result, the USDA Water and Waste Disposal programs are sometimes the only source to get the assistance they need. Currently, these programs provide the majority of assistance through grants, loans, and technical assistance, funded by an annual appropriation of approximately $530 million. The current backlog of applications is more than $2 billion, often forcing communities to wait years to get the assistance they need.

Rural communities often depend on USDA Rural Development programs to receive needed assistance in developing and improving assets that assist first responders. These assets include police cars, fire and ambulance trucks, and police and fire stations. The distances between first responders in rural areas, especially in remote areas, can be considerable. If a rural community lacks basic first responder assets, the public health and safety of its residents and those living in the surrounding area are at risk. These small rural communities lack the resources to obtain these first responder assets on their own. The Rural Development Community Facilities program provides grants, loans, and loan guarantees to help rural communities obtain vital first responder assets. In fiscal year 2006, the Community Facilities programs provided $240 million in assistance to finance first responder projects. While this level of assistance has been helpful, the unmet need is substantial.

Rural communities are also finding it difficult to obtain broadband Internet services. These communities are often too small and remote to attract the attention of the major private providers, and they lack the funds to bring broadband Internet services to their communities on their own. Rural communities that are fortunate enough to receive some form of access often experience lower quality service at double or triple the price charged in urban communities. Without quality broadband access, these communities and their residents are not able to keep pace with the rest of the country, which is increasingly becoming reliant on broadband Internet. Without high speed Internet services, many rural communities are unable to attract commercial development.

Stakeholders voiced strong opinions about the importance of broadband access during USDA's Farm Bill Forums. Karen of Vermont said, "Access to information in the agricultural arena includes commodity prices, information about weather…techniques for dealing with plant or animal disease…and more. We want our farmers and other rural residents to have this advantage. Without broadband, they are at competitive disadvantage…More and more technology-driven opportunities exist for rural-based entrepreneurship, but it is broadband that makes those opportunities reality."

The USDA Broadband Access program provides loans for the establishment and enhancement of broadband Internet access in rural areas. In addition, the Distance Learning and Telemedicine programs provide assistance, primarily through grants, to the smallest and most remote rural communities. In these communities, loan and loan guarantee programs sometimes are not effective when the communities and their residents lack the ability to repay the loans required to finance providing such services. While there has been adequate funding available for the Broadband Access loan program, the Distance Learning and Telemedicine grant programs have been significantly oversubscribed. For fiscal year 2006, USDA funded $25 million in Distance Learning and Telemedicine grants out of $40 million in eligible applications.

Recommended Solution

The Administration proposes to provide a one-time infusion of an additional $500 million in mandatory funding to reduce the backlog of Rural Development water and waste disposal grants and direct loans, emergency community water assistance grants, Community Facilities loan and grant programs that assist rural first responders, broadband access loans, and distance learning and telemedicine grants. Additionally, we propose reauthorization of the Broadband Access Program and the Distance Learning and Telemedicine Program.

This recommendation is grounded in the positive comments echoed across the country about USDA's rural development programs. For example, Sharon of Missouri said, "USDA Rural Development serves as a catalyst and supporter. It has created the enthusiasm needed to make our community come alive…USDA has been the engine that helped our rural community grow." Paul of North Dakota said, "I'd like to assure you that USDA Rural Development programs are making a big difference…USDA…has helped with…a $2 million water, sewer and gas line replacement project…at the Indian-owned United Tribes Technical College. The lines were in such bad shape that the future of the college was in jeopardy. Now…the college has been able to double its enrollment, teaching more than 800 Native Americans new skills and trades." Wayne of California said, "We have worked with and been a partner of USDA Rural Development for many years…investing in projects to overcome rural poverty, improve housing, and strengthen community development…We believe that federal funding for something as time-proven as this service should be increased and receive the attention it deserves."

Background

The significant unmet need for rural infrastructure was recognized as a serious problem during the consideration of the last farm bill. Section 6031 provided $360 million to address the backlog of USDA Water and Waste Disposal loan and grant applications.

USDA's community facilities program strives to ensure that health care clinics, police and fire stations, schools, and child care centers are readily available to all rural Americans. Rural Development can make and guarantee loans to develop essential community facilities in rural areas and towns of up to 20,000 in population. In FY 2005, the program awarded $52.9 million in grants and loaned $621.2 million for essential community facilities for public use.

Water and environmental programs are authorized under the Consolidated Farm and Rural Development Act to make direct loans and grants to develop drinking water and wastewater systems, including solid waste disposal and storm drainage, in rural areas and in cities and towns with a population of 10,000 or less. Funds are available to public entities, such as municipalities, counties, special-purpose districts, and Indian tribes. In addition, funds may be made available to nonprofit corporations and cooperatives. In FY 2005, this program awarded a total of $485.8 million in grants and $924.3 million in loans and loan guarantees for essential water and wastewater facilities for rural residents and towns.

Section 6103 of the 2002 farm bill established the Rural Broadband Access program—authorizing loans to provide access to broadband service to areas with a population of 20,000 or less. The goal of this program is to ensure that rural consumers benefit from the same quality and range of telecommunications services that are available in urban and suburban communities. USDA has loaned approximately $850 million to provide access to broadband services in rural communities since the start of this program in 2002.

In addition, changes in technology have presented new opportunities for delivering medical care in rural areas. Telemedicine is one innovation currently used to strengthen the likelihood of continued health care in rural communities. Section 6203 of the 2002 farm bill extended the USDA Distance Learning and Telemedicine loan and grant authority through 2007. This program provides funding for "end user" equipment to expand and improve medical services and educational opportunities through distance technology, allowing isolated rural hospitals and schools to utilize expertise that is located in more urban areas of the country.

STREAMLINE RURAL DEVELOPMENT PROGRAMS

Recommendation In Brief
Consolidate the legislative authorities for certain rural development programs to add more flexibility. Create more measurable performance standards for the programs and make them easier for USDA customers to use.

Problem
Historically, when a problem develops in rural America, new programs have been developed to address them. As a result, USDA Rural Development has two loan guarantee programs that can provide assistance to construct renewable energy systems, six grant programs that facilitate commercial business development, and two separate program areas that are designed to assist rural communities in developing rural infrastructure and community assets. These programs generally adopt different approaches to rural development. Because rural development activities are separated into individual legislatively mandated categories, it is difficult for USDA to embrace emerging rural development opportunities, such as renewable energy. This situation has also created a complex and confusing maze of programs for customers to understand and access. Finally, these disbursed authorities make it difficult for USDA to measure the performance and effectiveness of its activities.

Recommended Solution
To facilitate the coordination of rural development activities, the Administration proposes consolidation of certain existing statutory authorities, by grouping authorities to reflect the customers that either directly benefit from the programs or are essential to their operation, as follows:

1. *Create a Multi-Department Energy Grants Platform*. This would start the process of consolidating the renewable energy grant and research programs of USDA into one platform and increase interagency coordination. The first step of this consolidation would be to move USDA Rural Development renewable energy grant and research program authorities into the Biomass Research and Development Act of 2000. This Act has an existing coordinating forum that includes USDA, the Department of Energy (DOE), and other Federal agencies. By moving these programs into this Act, USDA and DOE can more effectively coordinate their research and development activities to better serve the needs of rural America. Key Rural Development programs that would be consolidated under this authority include the Renewable Energy Systems and Energy Efficiency Improvements grant program, with proposed mandatory funding of $500 million over ten years. In addition, mandatory funding for the competitive grant program under the Biomass Research and Development Act of 2000 would be increased to $150 million over ten years.
2. *Create a Business Loan and Loan Guarantee Platform*. Such a consolidation would make it easier for guaranteed lenders to participate in these programs and eliminate confusion. This proposal would consolidate into the existing Business and Industry authority, the authorities to carry out NADBank, Intermediate Relending Program; Prioritize funding for the construction of biorefinery projects in the Business and Industry loan guarantee

program; and consolidate the Section 9006 energy loan and loan guarantee program. Additionally, USDA recommends expanding the 9006 loan guarantee limits for cellulosic ethanol projects to $100 million with additional authority to exempt these cellulosic projects from the cap on guarantee loan fees and investing $210 million to support $2.17 billion in guaranteed loans for the construction of cellulosic ethanol facilities over 10 years.

3. *Create a Business Grants Platform*. This proposal would consolidate the authorities for the Rural Business Opportunity Grants, Rural Business Enterprise Grants, Value Added Grants, Rural Economic Development Loans and Grants, and the Rural Cooperatives Development Grants programs into one legislative authority. Specialty crops projects would receive priority in the Value-added Grants portion of this platform.
4. *Create a Community Programs Platform*. This proposal would consolidate the authorities for the water and waste loans, loan guarantees, and grants (including the assorted supplemental authorities such as the Emergency and Imminent Water Assistance Grants), the Community Facilities loan, loan guarantees, and grants, High Cost Energy Grants, Tribal College Grants, Economic Impact Grants, and the Rural Community Development Initiative Grants programs.

This streamlining of services was recommended in farm bill comments submitted to USDA. For example, Paul of Iowa said, "Federal programs that provide funding for rural development should be consolidated and streamlined for easier access by regions and communities. These programs also should assist communities in meeting infrastructure needs, from basic services to the latest in telecommunications…"

Background

These consolidations are consistent with other consolidation efforts within Rural Development, such as the Rural Housing Assistance Grants, which consolidates a number of housing assistance grants into one account. Grouping like grant programs together or loan and grant programs that work in tandem is an efficient way to provide flexible funding to meet the differing regional needs and demands of rural America.

TITLE VII
RESEARCH

SUMMARY OF RESEARCH TITLE REFORM

Recommendations In Brief

Reorganize and revitalize USDA's research, education, and economics mission and increase investment in high priority areas of research such as specialty crops, bio-energy, and bio-based products.

Problem

The agriculture industry faces unique challenges in the 21st Century. Many of these challenges can only be met through technological advancements driven by high quality agricultural research. While agricultural technology and scientific advancements have been astounding, more should be done to maintain U.S. agriculture's competitive edge.

When talking about the importance of agricultural research, David, from Indiana, said during a USDA Farm Bill Forum, "…we get the highest return on investment on those dollars as about any money that's going to be spent in the farm bill. And that allows us to be low-cost producers of a safe and reliable food and fiber source." And Sara, from Delaware, said, "It's imperative that the next farm bill will provide support for continuing research and education. The future of American agriculture will depend on it. Technological advances in agriculture will help the next generation of American farmers."

One area of particular challenge to agricultural researchers is our nation's dependence on foreign oil. Sixty percent of the petroleum used in the United States is now imported. If farm-raised biofuels and biobased products are to displace a significant portion of the foreign energy sources, conversion efficiency of biomass must be advanced, and top quality research must meet the challenge.

Additionally, specialty crops producers face unique challenges that require technological advancement. Specialty crops are now equal in value to program crops and yet specialty crops producers receive no direct cash assistance from the farm bill. This fact strengthens the case for significant investment in specialty crops research.

USDA's agricultural research structure needs to be updated and streamlined to meet the challenges associated with agriculture in the 21st Century. USDA has two separate agencies overseeing agricultural science with each entity maintaining separate national program staff. This situation leads to redundancy, higher administrative costs, lack of coordination, and an inability to maximize resources. One USDA Farm Bill Forum participant asked, "Is anyone really coordinating the USDA's research funding strategy?" USDA's research title proposals would strengthen coordination, efficiency, and the focus on priorities.

Recommended Solution

The Administration is recommending several reforms and new initiatives for Title VII of the farm bill – entitled "Research and Related Matters." Following is a list of the major components of the package.

1. Consolidate USDA's Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES) into a single agency named the Research, Education, and Extension Service (REES), which will coordinate both intramural and extramural research, extension, and education programs. (For further information, see the proposal entitled "Research, Education And Economics (REE) Mission Area Reorganization" on pages 127– 128.)
2. Rename the Research, Education, and Economics (REE) mission area the Office of Science. (For further information, see the proposal entitled "Research, Education And Economics (REE) Mission Area Reorganization" on pages 127 – 128.)
3. Establish an annual $50 million Agricultural Bio-Energy and Bio-Based Products Research Initiative to advance fundamental scientific knowledge for the improved production of renewable fuels and bio-based products. (For further information, see the proposal entitled "Agricultural Bio-Energy and Bio-Based Products Research Initiative" on pages 129 – 130.)
4. Establish an annual $100 million Specialty Crop Research Initiative to provide science-based tools for the specialty crop industry. (For further information, see the proposal entitled "Specialty Crop Research Initiative" on pages 131 – 132.)
5. Authorize USDA to conduct research and diagnostics for highly infectious foreign animal diseases on mainland locations in the U.S. (For further information, see the proposal entitled "Foreign Animal Disease Research" on page 133.)
6. Invest an additional $10 million in mandatory funding to be available until expended for organic research. This new funding would focus on conservation and environmental outcomes and new and improved seed varieties especially suited for organic agriculture. (For further information, see the proposal entitled "Organic Farming Initiatives" on pages 166 – 167.)

RESEARCH, EDUCATION AND ECONOMICS (REE) MISSION AREA REORGANIZATION

Recommendation In Brief
Consolidate USDA's Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES) into a single agency named the Research, Education, and Extension Service (REES), which will coordinate both intramural and extramural research, extension, and education programs. Rename the Research, Education, and Economics (REE) mission area the Office of Science.

Problem
USDA currently has two separate agencies responsible for agricultural science. CSREES supports extramural programs (external of USDA), while ARS conducts intramural research (internal to USDA). Both agencies support basic and applied research spanning the full spectrum of agriculture related issues including plant and animal systems, food and nutrition, and natural resources. Each agency maintains a separate National Program Staff (NPS) to manage programs and resources across these areas, leading to redundancy and administrative costs that could instead be invested in research and education.

Consolidating agency administrations will ensure that USDA's intramural and extramural science programs are well-coordinated and are maximizing resources. In addition, consolidation of the two agencies will ensure USDA's research arm is able to respond to emerging issues and address some of the most critical issues facing agriculture.

Additionally, the current structure can be confusing to USDA partners and stakeholders. Concern regarding this issue was raised during the Farm Bill Forums. For example, Eugene from Iowa raised the following concern: "The Department's dual research structure ARS/Land Grant Universities has strengths and weaknesses but the intellectual and political challenges it faces have never been more numerous or challenging….Is anyone really coordinating the USDA's research funding strategy?" And Steve, from California, expressed the need for "greater coordination of research between government and colleges."

The Land Grant Universities have also called for more coordination of USDA's research programs. This is reflected in their Creating Research, Extension and Teaching for the 21st Century (CREATE-21) proposal, which advocates a consolidation of USDA's research agencies.

Recommended Solution
The Administration proposes the creation of the Research, Education and Extension Service (REES) through the merger of ARS and CSREES. This new agency would be under the leadership of a Chief Scientist. This person would have authority for REES program offices, program implementation, and administrative and resource management.

We propose retaining authorities for the 1890, 1994 and Hispanic Serving Institutions. However, a new consolidated authorization would be sought to support the overall REES program. Funding under this consolidated line item would be under the authority of the REES Chief Scientist and support both intramural and extramural activities. The REES Chief Scientist, in concurrence with the Office of Science Under Secretary, would have administrative responsibility for allocation of funds.

This integration of programs will provide better coordination and allow for enhanced efficiency and effectiveness of program implementation and resource allocation. Duplication of efforts between intramural and extramural programs would be minimized, while better identifying and utilizing the comparative strengths of USDA's in-house capacity as well as USDA's university partners and other stakeholders.

Additionally, the REE mission area would be renamed the Office of Science. Leadership would continue through the Under Secretary and Deputy Under Secretary. This name change is consistent with several other federal government departments and better identifies the mission area as the one-stop scientific resource for agriculture.

Background

USDA's research, extension, and education programs are concentrated within the Research, Education and Economics (REE) mission area. REE consists of the Agricultural Research Service (ARS), the Cooperative State Research, Education and Extension Service (CSREES), the Economic Research Service (ERS), and the National Agricultural Statistics Service (NASS). Through these agencies, REE supports basic and applied research, economics, and statistics, as well as higher education and outreach.

ARS is the USDA's chief scientific intramural research agency and operates 107 research locations across the country. CSREES has the primary responsibility within USDA to provide extramural research, education, and extension conducted in partnership with state Land Grant Universities (LGUs) and other institutions throughout the country. ERS is a main source of economic research and information for USDA and NASS is the primary USDA statistical agency.

AGRICULTURAL BIOENERGY AND BIOBASED PRODUCTS RESEARCH INITIATIVE

Recommendation In Brief

Establish an Agricultural Bioenergy and Biobased Products Research Initiative with $500 million over 10 years to advance fundamental scientific knowledge for the improved production of renewable fuels and biobased products.

Problem

At present, 60 percent of the petroleum used in the U.S. is imported, primarily from countries in unstable parts of the world. The nation's dependence on these imports poses a threat to our national economy and security. Ethanol and related products produced from agricultural feedstocks (biomass) are beginning to be utilized instead of petroleum as energy and as components of carbon-based products such as plastics and fabrics. Additional research and development on biobased products are needed to advance these alternatives to petroleum-based products, as well as help meet the goals set forward in USDA's BioPreferred Program.

In order to meet the Nation's growing energy demands, production capacity and conversion efficiency of biomass must be improved. Increased support for bioenergy research and development was repeatedly raised as an important issue during Farm Bill Forums across the country. For example, Jocie from North Dakota stated, "More research is needed on increased efficiency of bio-fuels, the development of biobased products, and effective ways to integrate producers and rural communities in the development of biobased businesses." While Duane in Iowa said, "In regard to the 2007 farm bill, we believe that renewable energy should be a focal point. The current energy title should be strengthened." And Allan from Florida advocated "support for a competitive research program for fuels, chemicals and energy from biomass."

Recommended Solution

The Administration proposes the creation of the Agricultural Bioenergy and Biobased Products Research Initiative to enhance the production and conversion of biomass to renewable fuels and related products. Approximately $50 million of annual mandatory funding will support a USDA bioenergy and biobased product laboratory network utilizing existing USDA research facilities as well as engaging universities through a competitive process and connecting them to the laboratory network.

The new initiative will focus research and development efforts on two objectives: 1) improving biomass production and sustainability and 2) improving biomass conversion in biorefineries. This proposal will accomplish the following --

1. Leverage the Department's existing broad scientific capabilities in plant genetics and breeding; crop production; soil and water science; agricultural waste utilization; carbohydrate, lipid, protein, and lignin chemistry and biochemistry; enzyme development; fermentation; and microbiology.
2. Support new bioenergy and biobased product research that will help achieve the goals of the Advanced Energy Initiative and the BioPreferred Program.

3. Identify leading universities in bio-energy and biobased products research and capitalize on the respective strengths of USDA, DOE and the university community.

These three components will take full advantage of the USDA's internal and external research programs together with the network of extensive knowledge and capabilities that reside within the Land Grant universities and other research institutions throughout the U.S. At the same time, these activities will be closely coordinated with the Department of Energy (DOE), and its national labs and centers of excellence to ensure that there is no duplication of effort and that each organization's respective strengths are maximized.

Background

The production of bio-energy and biobased products from the Nation's agricultural resources presents a significant opportunity to reduce our dependency on foreign oil, enhance our economy, improve our environmental quality, and increase our nation's energy security. Fuel ethanol and biodiesel production from corn starch and soybean oil respectively comprised approximately 2.2 percent of U.S. liquid transportation fuel use in 2005, and that percentage will increase in 2006. The number of ethanol and biodiesel plants also continues to grow.

In order to meet the growing demand for biofuels, new varieties of starch and oil-based crops that will grow abundantly nationwide will be needed. New methods must be developed to convert agricultural waste materials such as corn stover and wood chips to produce enough biofuels and other combustible bioenergy products to increase our use of renewable resources and decrease our Nation's dependence on foreign oil. Additionally, significant economic opportunities exist to produce a wide range of industrial products from the byproducts of bioenergy production. To further develop these industrial products, an intense, broad-based research effort is needed.

Research conducted and/or funded by the USDA has already led to significant advances in technology that make agricultural biomass a viable alternative to petroleum. However, as the President outlined in his Advanced Energy Initiative and at the recent renewable energy conference hosted by USDA and DOE, there is a need for more research on bioenergy.

SPECIALTY CROP RESEARCH INITIATIVE

Recommendation In Brief

Invest $1 billion over ten years to establish a Specialty Crop Research Initiative to provide science-based tools for the specialty crop industry.

Problem

Enhanced research, extension, and education programs are needed to help the specialty crop industry address these challenges. The USDA's National Agricultural Research, Extension, Education, and Economics Advisory Board (NAREEEAB) recently recognized this need in their report on specialty crops.

During the Farm Bill Forums, many specialty crop producers spoke about the inequities in the current system and the need for greater investment in research. For example, Charles, from Georgia, noted that "federal investment in agricultural research dedicated to the economic vitality and long-term viability of United States specialty crops has been extremely limited….Federal investments in research for specialty crop production, processing, marketing and consumption which influence public access to these vital commodities must be re-emphasized in the next farm bill."

And Tom, at the California forum, stated: "Specialty crops are vital to the health and well-being of all Americans, and increased consumption of specialty crops will provide tremendous health and economic benefits to both consumers and growers….The next farm bill must address specialty crop issues much more effectively than in the past farm bills….Policy areas that the next farm bill must address, with respect to the unique needs of specialty crop growers, include the following: specialty crop block grants, international trade, nutrition, marketing, invasive pest and disease issues, research, competitive grants, and conservation programs."

Recommended Solution

The Administration proposes investing $100 million in annual mandatory spending to create a new Specialty Crop Research Initiative to address the critical needs of the specialty crop industry. The initiative will support both intramural and extramural programs across the nation and provide science-based tools to address needs of specific crops and regions. Focus areas will include:

1. Conducting fundamental work in plant breeding, genetics, and genomics to improve crop characteristics such as product appearance, environmental responses and tolerances, nutrient management, pest and disease management, enhanced phytonutrient content, as well as safety, quality, yield, taste, and shelf life.
2. Continuing efforts to identify threats from invasive species such as Citrus Greening and Glassy-Winged Sharpshooter.
3. Optimizing production by developing more technologically efficient and effective application of water, nutrients, and pesticides to reduce energy use and improve production efficiency.
4. Developing new innovations and technology to enhance mechanization thus reducing reliance on labor.

5. Improving production efficiency, productivity, and profitability over the long term.

Background

The U.S. specialty crop industry is comprised of producers and handlers of fruits, tree nuts, vegetables, melons, potatoes, and nursery crops, including floriculture. It is a major contributor to the U.S. agricultural economy. Specialty crops accounted for 10 million harvested cropland acres in 2004. The value of total U.S. specialty crops ($49 billion in sales) now exceeds the combined value of the five major program crops ($45.8 billion in sales).

One of the principle opportunities to enable the specialty crop industry to remain competitive in the global environment and to continue contributing to the U.S. economy is to support research programs that facilitate continued advancements in productivity and technology.

FOREIGN ANIMAL DISEASE RESEARCH

Recommendation In Brief

Authorize USDA to conduct research and diagnostics for highly infectious foreign animal diseases on mainland locations in the U.S.

Problem

Research and diagnostics for highly infectious foreign animal disease agents, such as Foot and Mouth Disease (FMD) and Rinderpest viruses, are currently confined to an off shore location, presently the Plum Island Animal Disease Center (PIADC). The Department of Homeland Security (DHS) has initiated a process to move all the functions of PIADC to a new facility to be named the National Bio and Agro-Defense Facility (NBAF). When the new DHS NBAF facility is constructed and operational, all USDA work at Plum Island is expected to relocate to this new mainland facility. In anticipation that this facility will be built on the U.S. mainland, USDA must be authorized to conduct important foreign animal disease research on FMD and other select diseases at the new facility or at other U.S. locations equipped to handle highly infectious diseases.

Research, diagnostics and training, as well as vaccine development and evaluation are critical components to fighting and mitigating the effects of these diseases and securing the U.S. food and agricultural system. Without this research, U.S. farmers and our entire food system would be at greater risk.

Recommended Solution

The Administration proposes specific authorization for USDA to conduct research and diagnostics for highly infectious disease agents, such as FMD and Rinderpest on the U.S. mainland.

Background

Research and diagnostics for highly infectious foreign animal disease agents, such as FMD and Rinderpest viruses, are statutorily confined to an off shore location, i.e. the PIADC. In 1990, the original 1884 statute was amended, 21 U.S.C. 113a, to authorize the Secretary of Agriculture to issue a permit for FMD live virus work on the U.S. mainland when necessary and in the public interest.

Today, modern biocontainment facility construction and rigorous biosafety operational standards allow such work to be safely done without fear of virus escape to the environment or harm to animal and/or pubic health.

TITLE VIII
FORESTRY

SUMMARY OF FORESTRY TITLE REFORM

Recommendations In Brief

Encourage states and private forest owners to proactively manage and preserve their forests through innovative initiatives. Create a wood-to-energy program to support better utilization of low value woody biomass for energy production.

Problem

Complex issues are facing our nation's forest owners, yet only 30 million of the nation's 345 million acres of private nonindustrial forestland is covered by Forest Stewardship Plans to ensure sustainability.

Forest landowners face increased pressures to convert their forestland to development – houses, roads, and buildings continue to encroach. Land covered by urban areas has more than doubled over the last 40 years, and more than 44 million acres of private forests are at-risk of being developed by the year 2030. Much of this development is expected on the urban fringe, threatening open spaces and increasing fire prone areas, potentially putting more people and property in harms way.

Additionally, our nation's forests contain enormous amounts of woody biomass that cause waste disposal problems, degrade forest health, and add fuel that can drive uncharacteristic wild land fires. Often, forest thinning as well as forest fires, insect damage, and disease can generate large quantities of biomass that has little commercial value. Currently, these wastes are not reused or recycled. Technological advancement could provide a pathway to better utilize these products, contributing to forest health and protection while helping to meet our nation's energy needs.

These forestry problems were noted during USDA Farm Bill Forums. Robert from New York said, "The need to invest in sustainable forestry continues and remains a critical tool that will address such modern environmental challenges as global climate change, sprawl, and energy independence. A Forestry Title within the 2007 farm bill is required to promote the sustainable use and management of the nation's private forest lands." And Kristen from Massachusetts added, "Forests provide important ecosystem services like clean air, clean water, wildlife habitat, and serve as a soil bank for high-value soils…The next farm bill must have a major emphasis on forests as well as farmlands, including a separate Forestry Title to ensure that these programs receive adequate attention."

Recommended Solution

The Administration is recommending authorization of several new initiatives within Title VIII of the farm bill – entitled "Forestry." Following is a list of the major components of the package.

1. Provide technical and financial assistance to each state forestry agency for the development and implementation of a Statewide Forest Resource Assessment and Plan. (For further information, see the proposal entitled "Comprehensive Statewide Forest Planning" on page 137.)
2. Create a competitive landscape scale grant program to develop innovative solutions that address local forest management issues; develop local nontraditional forest product markets;

and stimulate local economies through creation of value-added forest product industries. (For further information, see the proposal entitled “Landscape Scale Forestry Competitive Grant Program” on page 138.)

3. Initiate a new $150 million wood-to-energy program over 10 years to accelerate development and use of new technologies to more productively utilize low-value woody biomass resources, offsetting the demand for fossil fuels and improving the forest health. (For further information, see the proposal entitled “Forest Wood to Energy” on pages 139 – 140.)
4. Create a Community Forests Working Lands Program to: 1) provide financial support to communities for the acquisition and conservation of community forests and 2) provide technical assistance to communities engaged in forest resource planning. (For further information, see the proposal entitled “Community Forests Working Lands Program” on page 141.)

COMPREHENSIVE STATEWIDE FOREST PLANNING

Recommendation In Brief

Provide technical and financial assistance to each state forestry agency for the development and implementation of a Statewide Forest Resource Assessment and Plan.

Problem

Even as the public demand for products and amenities associated with forestlands grows, private forest landowners are faced with increased pressure to convert their forestland to development. More than 44 million acres of private forests are at risk of being developed by 2030. Much of this growth is in fire prone areas, adding to the complexity of managing fire adapted ecosystems and potentially putting more people and property in danger.

Recommended Solution

The Administration recommends initiating a program to provide technical and financial assistance for the development and implementation of Statewide Forest Resource Assessments and Plans. This new initiative is modeled after a successful Department of Interior program that provides states with federal financial assistance to develop comprehensive plans to conserve wildlife within their boundaries.

These new assessments and plans would: identify critical forest resource areas; incorporate existing forest management plans; address national priorities and regional cross-boundary needs; and provide a comprehensive framework for management, public participation, monitoring, and grants administration. The plans, which would be reviewed by the Forest Service, would provide a formal multi-year tool to direct programs and funding into a cohesive integrated forest management strategy.

A comprehensive approach to forest management is necessary to sustain the benefits of forestlands in the face of increasing and conflicting demands. While a few states have begun making significant progress towards managing forests on a broad scale, accelerating and expanding strategic landscape-scale forestry planning is needed to fully address the threats facing these lands. USDA proposes up to $65 million in discretionary funding for this new initiative.

Background

Nationwide, 430 million acres of forestlands are privately owned. These lands play a critical role in generating drinking water, controlling floods, storing carbon, producing timber and other wood products, sustaining biodiversity, and providing outdoor recreation for millions of Americans. Comprehensive forest management planning is necessary to ensure forests can continue to provide critical ecosystem services and products.

LANDSCAPE SCALE FORESTRY COMPETITIVE GRANT PROGRAM

Recommendation in Brief

Create a competitive landscape scale grant program to develop innovative solutions that address local forest management issues; develop local nontraditional forest product markets; and stimulate local economies through creation of value-added forest product industries.

Problem

Even as the public demand for products and amenities associated with forestlands grows, private forest landowners are faced with increased pressure to convert their forest land to development. With 63 percent of family forest landowners over 55 years old and 33 percent over 65, a substantial portion of the Nation's private forestlands will be transferred during the next two decades. The Forest Service estimates that 44 million acres of forestland is at risk of conversion or fragmentation by 2030.

While small scale or individual landowner focused programs are helpful, they cannot alone address the complex issues of today's current forestry scenarios - global markets, urban sprawl, and public disconnection with natural environment. As the Kansas State Forester stated at a farm bill forum, "To meet our objectives on priorities and [make] a measurable difference, I believe a landscape approach to implementing programs is needed."

Recommended Solution

The Administration proposes the authorization of a new landscape scale competitive grant program to protect critical forest areas, generate income and employment through niche timber markets, and contribute to the economic health of rural communities. This cooperative conservation approach at the landscape scale is needed to maintain the environmental, social and economic benefits provided by healthy forest ecosystems.

The landscape scale of the grant program would ensure a comprehensive, coordinated approach to forest management and would ensure collaboration across ownership and jurisdictional boundaries. The competitive grant would provide "one-stop shopping" for grantees providing technical and financial assistance for all phases of a landscape level project from planning through implementation and management. The proposed program would authorize appropriations up to $30 million annually.

Background

Landscape scale projects involve multiple watersheds. Competitive projects would be located in critical forest areas; would actively enroll new and underserved family forest owners; and would deliver on the ground projects that integrate private landowner goals, sustainable forestry goals, and sustainable community goals. State, county, local and tribal governments, conservation and environmental organizations and associations, private forest landowners, and academia would be eligible. Public/private partnerships would be encouraged. Grant periods would be for 3-5 years to allow appropriate time to build capacity.

FOREST WOOD TO ENERGY

Recommendation In Brief

Initiate a new $150 million wood-to-energy program over 10 years to accelerate development and use of new technologies to more productively utilize low-value woody biomass resources, offsetting the demand for fossil fuels and improving the forest health.

Problem

Public, private, and tribal forests contain enormous amounts of biomass. In many cases, woody biomass poses waste disposal problems, degrades forest health, and adds to fuel loads that contribute to uncharacteristic wild land fires. Millions of tons of woody biomass are available and must be disposed of at high costs. Because little commercial value is associated with wood generated by thinning operations or wood damaged by forest fires, insects, and disease, this wood is generally not reused or recycled in a sustainable manner.

This unique opportunity was not overlooked at USDA Farm bill Forums. For example, Daniel from Texas requested that the farm bill "invest in woody biomass technologies, including the use of woody biomass for energy, transportation fuels and other value added products. This would help to recover much of the lost infrastructure in logging and timber communities throughout the United States, while at the same time promoting healthy forests, reducing our dependence on foreign oil, creating jobs, and most importantly providing for national security." And Dean from Minnesota echoed, "Agroforestry can contribute to energy independence through production of biomass energy from both herbaceous and woody perennials which also provide environmental benefits…The next farm bill should provide temporary support to biomass energy programs and other agroforestry systems until such systems become self-sustaining."

Recommended Solution

The Administration proposes to establish a new Wood to Energy Program. This new initiative would:

1. Accelerate practical commercial development of cellulosic ethanol conversion from a diverse range of biobased products;
2. Increase use of Forest Service knowledge and technical capacity to advance research and commercialization of woody biomass as a transportation fuel;
3. Develop new or improved processes for wood to ethanol conversion, small scale wood to energy technology, biobased products from low-valued woody biomass sources, and technologies for separating high-value from low-value wood for primary and secondary processing; and
4. Apply new technologies, such as nanotechnology and biorefining, to product development.

The Forest Service would engage forest-based communities, entrepreneurs, small businesses, along with private investors in the implementation of this program to leverage Forest Service staff and other critical resources. The fiscal year 2006 Interior Appropriations Conference Report provides up to $5 million for this type of biomass research grants; we propose supplementing this investment with $15 million annually in mandatory spending.

Background

Woody biomass is defined as woody materials that have historically been too small, scattered, or poor in quality to attract commercial buyers. Converting biomass to higher-value products and/or renewable energy can improve forest health; create thousands of rural-based jobs; millions of dollars in value-added revenue; and reduce dependence on imported oil.

COMMUNITY FORESTS WORKING LANDS PROGRAM

Recommendation in Brief
Create a Community Forests Working Lands Program to: 1) provide financial support to communities for the acquisition and conservation of community forests and 2) provide technical assistance to communities engaged in forest resource planning.

Problem
Forests at the urban fringe are being displaced as U.S. cities and towns are expanding, with new houses, roads, and buildings. The land covered by urban areas has more than doubled over the last 40 years with continued growth expected. The planning decisions of local governments significantly impact whether forests are protected or converted to other uses. Community planners make decisions about zoning, distribution of infrastructure, and development protocols that often affect the conservation of open spaces and forests. However, they are not often equipped to make informed decisions about the impact of land use on current or future forest resources. In some cases, community planners lack the financial or technical resources to create a community forest.

Recommended Solution
The Administration proposes the creation of the Community Forests Working Lands Program to provide financial and technical assistance to communities. The first element of the program would amend and complement the Forest Legacy program by providing funding for the conservation of forested tracts near cities and towns. Funding would enable local governments to designate and protect community forests through conservation easements and/or acquisition. The second element of the program would provide forest resource planning assistance to communities. The program would provide community-specific technical assistance, as well as general resources and training to help state and local planners better understand and manage their community forest resources. Community forests help protect environmentally important land within and near urban areas, provide a local source of timber and forest products, and also provide recreation and education opportunities for urban citizens. The program would be authorized up to $65 million annually in discretionary funding.

Background
This conservation program specifically targets threatened forests near cities and towns because these lands are highly vulnerable to development pressure. Conservation of forests within and near communities play a critical role in protecting riparian habitats, purifying water, controlling floods, storing carbon, and providing outdoor recreation for urban populations. Community forests also enable citizen engagement in the management of their forests and the production of local forest products. As Dennis stated at the Vermont Farm Bill Forum, “We're seeing a groundswell of interest at the local municipal level for communities to purchase and manage their own timberlands.”

TITLE IX
ENERGY

SUMMARY OF SUPPORT OF RENEWABLE ENERGY PRODUCTION IN RURAL AMERICA

Recommendation In Brief

Expand Federal research focused on renewable fuels and bioenergy and reauthorize, revise, and expand programs that provide valuable tools for the advancement of renewable energy production and commercialization.

Problem

In fiscal year 2005, U.S. ethanol and biodiesel production made from all sources was nearly 4 billion gallons and 91 million gallons, respectively. Comparatively, 140 billion gallons of gasoline and over 60 billion gallons of diesel fuel were consumed in the U.S. in 2005.

Even with the success of corn and soybean biofuels, to substantially reduce America's dependence on imported oil, biofuels will need to be made from cellulosic processes that use feedstocks such as specialty crop biomass, switch grass, corn stover, straw, and other woody biomass. Some cellulosic conversion processes have been scientifically demonstrated to be capable of producing biofuels and other energy.

Limited government support, in partnership with the private sector, will help to advance commercial application of these innovations. Government support of cellulosic energy is needed because the scale of investment required is very large, the industry is new and thus faces uncertain risks, and there is an urgent need to diversify energy sources for economic and security reasons.

In addition to reducing our nation's dependence on oil, renewable energy is reinvigorating rural America. The agricultural implications of renewable energy were highlighted repeatedly during USDA Farm Bill Forums. For example, John from Illinois said, "Producing cellulosic biomass for base-load renewable energy and other uses will provide farmers and ranchers with a new crop and many rural communities with new processing businesses and allied agricultural services opportunities." Jeffrey of Vermont said, "USDA is uniquely suited to help propel a major renaissance of agricultural economic prosperity through strong action to increase the production of farm based renewable energy of all types."

Developing this technology in a way that enables commercialization depends on quality, highly-focused research. Yet, bioenergy research and development totals only two percent of USDA's entire research and development portfolio. This level of support is inconsistent with our nation's energy supply and security priorities. USDA was repeatedly encouraged to strengthen investment in renewable energy by people like Richard, of Nebraska, who said, "We believe the 2007 farm bill should include a focal point on renewable energy. The energy title should be strengthened." Chad, of Washington State suggested in his written comments, "Now we have the opportunity to help provide energy to offset oil imports. We need to fund the development of renewable energy sources."

Recommended Solution

Funding basic and applied research, as well as sharing the risk through loan and loan guarantee programs, helps to improve the economic, technical, and commercial viability of new, high capacity renewable energy processes. Once a process is recognized as having achieved commercial viability, the Federal government should refocus support on other less developed, yet promising processes. To carry out this approach, the Administration recommends the following:

1. Initiate a new, temporary program to provide $100 million in direct support to producers of cellulosic ethanol. (see proposal entitled "Cellulosic Bioenergy Program" on pages 145 - 146).
2. Reauthorize the BioPreferred program, revise provisions to improve its effectiveness, and invest $18 million over 10 years to expand and improve the program. (see proposal entitled "Expansion of Biobased Products Market" on page 147).
3. Reauthorize the Renewable Energy Systems and Energy Efficiency Improvements loan guarantee program. The Administration proposes a loan guarantee program funding level of $210 million, which would support $2.17 billion of guaranteed loans over 10 years. The loan cap for funding cellulosic ethanol projects would increase to $100 million per project, and these cellulosic projects would be exempt from the cap on loan guarantee fees. Further, the Administration recommends incorporating these programs into the Business and Industry Loan and Loan Guarantee Program. Prioritize funding for the construction of biorefinery projects in the Business and Industry loan guarantee program. (see proposal entitled "Streamline Rural Development Programs" on pages 122 - 123).
4. Reauthorize the Renewable Energy Systems and Energy Efficiency Improvements grant program. The grant program would be funded at $500 million over 10 years. This program will continue to support smaller alternative energy and energy efficiency projects that directly help farmers, ranchers, and rural small businesses. The goals would be consistent with those contained in the Biorefinery Development Grants program, which include providing diversified markets for agricultural and forestry products, increasing the country's energy independence, and enhancing rural development opportunities. (see proposal entitled "Streamline Rural Development Programs" on pages 122 - 123).
5. Enhance the Conservation Reserve Program (CRP) by adding a biomass reserve program to give priority for whole-field enrollment of lands producing biomass for energy production (see proposal entitled "Conservation Reserve Program" on pages 51 - 52).
6. Revise the Biomass Research and Development Act of 2000 to increase the annual competitive grant funding for biomass research, focusing on cellulosic ethanol, with $150 million in mandatory funding over 10 years. (see proposal entitled "Streamline Rural Development Programs" on pages 122 - 123).
7. Expand USDA and university research by authorizing $500 million in mandatory funding over 10 years for the creation of a Bioenergy and Bioproducts Research Initiative to increase the cost-effectiveness of bioenergy by facilitating collaboration between Federal and university scientific experts. The initiative would link USDA Rural Development bioenergy activities to hasten technology transfer (see proposal entitled "Agricultural Bioenergy and Biobased Products Research Initiative" on pages 129 - 130).
8. Accelerate the development of new technologies to better utilize low-value woody biomass by authorizing $150 million in 10 year mandatory funding for Forest Service research (see proposal entitled "Forest Wood to Energy" on pages 139 - 140).

CELLULOSIC BIOENERGY PROGRAM

Recommendation In Brief

Initiate a new, temporary program to provide $100 million in direct support to producers of cellulosic ethanol.

Problem

Ethanol produced from corn is growing rapidly, contributing to diversification of the nation's transportation fuel supply and increasing economic opportunity for farmers and rural areas. However, the need for greater production of renewable energy is enormous, but the ability of corn-based ethanol to supply that need is limited. Efficiently producing ethanol from cellulosic feedstocks such as switchgrass, corn stover, wood, waste, and other biomass materials would provide large, new sources of raw materials for the production of renewable fuel. Economically feasible cellulosic ethanol production would enable ethanol to displace much more imported crude oil than relying on corn-based ethanol alone. In addition, production of the biomass for cellulosic ethanol production would create economic opportunities for many farmers in diverse geographic regions across the United States.

Cellulosic ethanol is not commercially produced in the United States today. However, the technology of production has been improved greatly in recent years and demonstration plants are expected to be producing in the near future. This emerging industry faces start-up risks as new, costly plants are built and the technology is improved to achieve commercial-scale production. Targeted government support is needed to help overcome the initial barriers to commercial production.

Recommendation

Initiate a program that would share the cost of biomass feedstocks used by cellulosic ethanol producers for their increase in production above their previous year's level of production. The program would be modeled after the Commodity Credit Corporation (CCC) Bioenergy Program, which expired in 2006, as authorized by Section 9010 of the 2002 farm bill. The new cost share program would provide $25 million annually in mandatory funding for FY 2009-2012. Eligible biomass feedstocks would include sugar crop and specialty crop waste products.

Background

The CCC Bioenergy Program operated during FY 2001-2006. The initial purpose of the program was to generate demand for surplus farm products, expand biofuel production, and support new biofuel production capacity. The 2002 farm bill funded the program at up to $150 million annually for FY 2003-2006. The program made payments to commercial U.S. ethanol and biodiesel producers. Payments were based on the year-over-year increase in biofuel production made from eligible commodities. Eligible commodities included major field crops, such as wheat, corn, grain sorghum, oats, rice, and soybeans and other oilseeds; cellulosic crops (such as switchgrass and short rotation trees); and animal fats, oils and greases, including recycled oils. The new recommended program would operate similarly to the CCC Bioenergy Program, except that payment eligibility would be limited to the increase in cellulosic ethanol produced from biomass feedstocks. The program would include an annual payment limitation per ethanol producer.

EXPANSION OF BIOBASED PRODUCTS MARKET

Recommendation In Brief
Reauthorize the Federal Procurement of Biobased Products program, revise provisions to improve its effectiveness, and invest $18 million over 10 years to expand and improve the program.

Problem
Section 9002 of the 2002 farm bill created the Federal Procurement of Biobased Products program to encourage Federal government purchases of biobased products. However, several provisions of the authorizing legislation have hampered program implementation and are likely to do so in the future. These provisions include the definition of a biobased product, the limitations on the use of mandatory funding, the lack of funding for program administration, and the lack of authority to designate intermediate production inputs (materials used to create biobased products) for preferred procurement. To increase the Federal market penetration of biobased products, these concerns must be addressed. During USDA Farm Bill Forums, support for biobased products was frequently expressed by people like Suzy of Iowa who said, "…renewable energy and bioproducts are all important things to consider as we head into the 21st Century." Millie, of New Mexico, stated it simply when she said, "Renewable energy and bioproducts need to be priorities."

Recommended Solution
The Administration recommends that the authority in Section 9002 be amended to define "biobased products" as a product determined by the Secretary to be a commercial or industrial product (other than food or feed) that is composed, in whole or in significant part, of biological products including renewable domestic agricultural materials (including plant, animal, and marine materials) or forestry materials. This amends the current definition so that renewable agricultural materials are not limited to domestic sources, thus resolving trade restriction concerns with the current statutory language. The $1 million in annual mandatory funding currently provided for testing should be continued and expanded to include environmental and performance testing for the purposes of public information as well as for designation of items for procurement. In addition, $800,000 in annual mandatory funding would enable USDA to provide assistance to other Federal agencies in implementing the procurement program as well as allow USDA to audit and oversee biobased product manufacturers to ensure that their claims regarding their products are valid and that criteria are met for using the label authorized by the program. Finally, materials used to create biobased products, such as chemical building blocks, should be eligible for biobased product designation and labeling.

Background
The Federal Procurement of Biobased Products program helps develop the market for biobased products by encouraging the purchase of these products by the Federal government. Through Federal government purchases, the commercial viability of these products could be established and government demand for biobased products increased, thus leading to wider public acceptance, increased demand, and increased production of a greater variety of biobased products.

TITLE X
MISCELLANEOUS

SUMMARY OF MISCELLANEOUS TITLE REFORM

Recommendations In Brief

Improve risk management tools for farmers by creating a supplemental insurance program. Increase the efficiency and effectiveness of the crop insurance program. Revise dairy assessment requirements to create a more fair system.

Problem

Risks related to weather patterns and natural disasters are inherent to farming, creating the need for protection. Crop insurance provides this protection, but farmers have voiced concern about crop insurance deductibles and premiums being too high.

For example, Ricky from Alabama said, “While most producers realize that no one should be guaranteed a profit, we do see the need for real crop insurance reform that will give good business men the tools they need to manage the unique risk involved in agricultural production…. (crop insurance was) too expensive at adequate coverage, too many producers were left out, and there was still too much room for fraud.” And Gary from Kansas agreed, “The crop insurance program definitely needs revamping. Most insurance programs, such as health or home insurance, reimburse the insured for most of the costs associated with a tragedy. Crop insurance, in no way, provides this insurance, and this became very evident with our continued drought here.”

Additionally, certain statutory requirements of the crop insurance program have put its future integrity and actuarial soundness in question. For example, the law requires no further adjustments to the standard reinsurance agreement and mandates an expected loss ratio designed to ensure indemnities paid out exceed premiums paid in.

Crop insurance fraud and abuse continues to be a serious concern. An expansion of program compliance and data mining activities is needed to appropriately identify and sanction “bad actors” who are abusing the program. The law also prohibits certain existing funding sources from being used on high priority crop insurance needs such as program compliance efforts and research on existing crop insurance products. Jocie from North Dakota said, “A crop insurance program that provides risk management and revenue protection…is an important part of any farm bill.”

Finally, dairy promotion and research assessments are currently collected on domestic products from the 48 contiguous states, but are not collected on dairy production from Alaska, Hawaii, and Puerto Rico. This domestic inconsistency has prevented dairy assessments from being collected on imported dairy products, putting domestic dairy products at a disadvantage compared to their imported counterparts.

Recommended Solution

The Administration is recommending several additions to Title X of the farm bill – entitled "Miscellaneous." Following is a list of the major components of the package.

Subtitle A – Crop Insurance

1. Allow farmers to purchase supplemental insurance that would cover all or part of their individual policy deductible in the event of a county or area wide loss. This proposal would increase the Administration's commitment to crop insurance by $350 million over 10 years. (For further information, see the proposal entitled "Crop Insurance Supplemental Deductible Coverage" on pages 151 – 153.)
2. Reduce the expected loss ratio for the crop insurance program from 1.075 to 1.00. (For further information, see the proposal entitled "Revise Crop Insurance Expected Loss Ratio" on page 154.)
3. Allow private crop insurance companies direct access to data mining information that reveals potential fraud and charge a user fee for this access. (For further information, see the proposal entitled "Access to Crop Insurance Data Mining Information" on pages 155 – 156.)
4. Allocate up to $10 million in annual funding to strengthen crop insurance compliance efforts. (For further information, see the proposal entitled "Strengthen Crop Insurance Program Compliance" on pages 157 – 158.)
5. Provide the Federal Crop Insurance Corporation (FCIC) broader authority to contract for research and development to improve existing crop insurance programs. (For further information, see the proposal entitled "Crop Insurance Research and Development" on pages 159 – 160.)
6. Provide the authority for USDA to renegotiate the financial terms of the Standard Reinsurance Agreement once every 3 years. (For further information, see the proposal entitled "Crop Insurance Standard Reinsurance Agreement" on pages 161 – 162.)
7. Implement a series of crop insurance reforms to increase program participation, reduce the need for ad hoc disaster assistance programs, and control program costs. (For further information, see the proposal entitled "Increase Crop Insurance Participation While Controlling Program Costs" on pages 163 – 164.)

Subtitle B -- Marketing

1. Enable the collection of research and promotion assessments on imported dairy products, as called for in the 2002 farm bill, by requiring these assessments on a consistent basis domestically. (For further information, see the proposal entitled "Ensuring Fairness of Dairy Research and Promotion Assessments" on pages 165 – 166.)
2. Re-authorize and expand the Organic Certification Cost Share Program and provide funding for organic farming research and comprehensive market price information gathering. These organic farming initiatives total $61 million in additional funding over 10 years. (For further information, see the proposal entitled "Organic Farming Initiatives" on pages 166 – 167.)
3. Utilize an additional $2.75 billion of Section 32 funds over ten years to specifically purchase fruits and vegetables for the National School Lunch Program and other nutrition programs. (For further information, see the proposal entitled "Increase Purchases of Fruits and Vegetables for Nutrition Assistance Programs" on pages 168 – 169.)

CROP INSURANCE
SUPPLEMENTAL DEDUCTIBLE COVERAGE

Recommendation in Brief

Allow farmers to purchase supplemental insurance that would cover all or part of their individual policy deductible in the event of a county or area wide loss. This proposal would increase the Administration's commitment to crop insurance by $350 million over ten years.

Problem

During USDA's Farm Bill Forums, producers expressed concern that crops with high premiums and significant deductibles leave producers with unacceptable risk management options. Jayme from North Dakota said, "Modifying the crop insurance program to account for regional disasters may be able to help beginning farmers through their most difficult challenges."

Producers can minimize deductibles by purchasing higher coverage levels (lower deductibles) but they face significantly higher premiums as a result. For some farmers, the deductibles on their crop insurance policies might exceed their profit margin. For example, the smallest deductible offered on USDA individual coverage crop insurance policies is 15 percent, meaning that a 15 percent loss must be incurred and absorbed by the producer before any indemnity is paid.

Loren in Kansas said, "I think that less subsidy should go to the type of crop insurance that the farmer has to verify yields, and more to the group risk and GRIP type policies."

Recommended Solution

The Administration proposes to amend the Federal Crop Insurance Act to allow the USDA crop insurance program to offer a new insurance option. This supplemental coverage would pay some or all of a grower's individual deductible if the producer is in a county that has suffered a high rate of loss. The sum of the indemnities payable under the individual and the group deductible policies could not exceed the value of the crop. This supplemental deductible coverage would function similarly to existing policies such as the Group Risk Plan (GRP) and the Group Risk Income Protection (GRIP). The supplemental policy would be offered at several coverage levels such that all or only a portion of the deductible would be covered.

Deductibles require producers to share in the risk of loss, thus encouraging them to operate their farms using best management practices. However, an individual producer's activity has little impact on countywide losses. Therefore, by triggering the supplemental deductible coverage based on county or area-wide losses, the integrity of the Federal crop insurance program is maintained. The supplemental deductible coverage is not paid in the event of individual substandard farming practices.

The Supplemental deductible coverage would strengthen the safety net provided by crop insurance by providing full coverage in the event of area-wide disasters. For example, if a producer selects 65 percent coverage under an individual policy and purchases supplemental deductible coverage, the producer could be compensated for 100 percent of his or her loss in the event of a devastating drought.

The threshold at which the supplemental insurance would be activated is a county-wide loss of 10 percent or more. When the loss under the group policy is sufficiently large, the grower's deductible would be completely covered, resulting in 100 percent of losses being covered. No existing crop insurance policy offers 100 percent coverage.

This approach would help to address the "hole in the safety net" that exists due to the fact that current crop insurance products fail to cover crop losses that are less than the size of the deductible. Supplemental deductible coverage, combined with changes in the crop insurance program designed to increase participation (see "Increase Crop Insurance Participation While Controlling Program Costs") and the counter-cyclical revenue payment program (see "Revenue-Based Counter-Cyclical Payment") will help eliminate the need for costly supplemental disaster assistance that potentially undermines crop insurance participation.

In addition, the proposal will help to address the concerns producers raised about high premiums for higher levels of coverage. Because an area-wide event is necessary to trigger the supplemental deductible coverage, the premium would be substantially lower than the premium for higher levels of standard coverage.

Background

Basic Federal crop insurance is designed to address two types of risk: 1) localized risks of a specific producer's farm, such as an excessive rainfall or other natural disaster and 2) risks that cause widespread production losses, such as a county-wide drought.

A deductible on individual coverage in crop insurance provides an incentive to mitigate losses and protect program integrity. However, it creates a gap in the protection offered by the program. Allowing farmers to purchase a supplemental group deductible policy, for which the insured cannot control the loss outcome, would provide more comprehensive coverage of risks. At the same time, it would avoid the incentive problems that true 100 percent individual coverage would entail.

Under the Administration's proposal, if the county yield is at or below 70 percent of the county average, producers would receive a payment equal to 100 percent of the loss not covered by the crop insurance payment under their individual policy. If the county yield is between 90 and 70 percent of the county average, the producer would receive a proportional amount of the loss not covered by the crop insurance payment. And if the countywide loss is less than 90 percent, no deductible payment would be triggered. Producers would also receive whatever indemnity is triggered under the individual policies as well; thus under a complete loss scenario, producers would receive 100 percent indemnity for their losses.

Looking at some specific examples, assume a producer takes advantage of this proposal and purchases both an individual yield policy and a supplemental deductible option based on county yield. For every one percentage point indemnity calculated under the county yield policy, the producer would receive a payment equal to 5 percent of the loss not covered by a crop insurance payment. If the county yield is 80 percent of the expected yield, the county yield would be ten percentage points below the county yield indemnity trigger of 90 percent, and the producer would receive a payment under the county yield policy equal to 50 percent (10 times five percent) of the loss not covered by the crop insurance payment. Under this same scenario, if the county yield fell to 70 percent of the county average, the policy would cover 100 percent of the uncovered loss, and if the county yield fell to 86 percent of the county average, the group policy would pay 20 percent of the uncovered loss.

REVISE CROP INSURANCE EXPECTED LOSS RATIO

Recommendation in Brief
Reduce the expected loss ratio for the crop insurance program from 1.075 to 1.00.

Problem
Sections 506(o) and 508(d) of the Federal Crop Insurance Act mandate that the expected loss ratio for the crop insurance program should be not greater than 1.075. Consequently, an assumed underwriting loss is built into the budget for the crop insurance program, bringing into question its actuarial soundness.

Recommended Solution
The Administration recommends a revision of the expected loss ratio in the Federal Crop Insurance Act downward from 1.075 to an actuarially balanced level of 1.00. This policy change will reduce the budgeted cost of the crop insurance program and ensure a more actuarially sound. Program changes in recent years have moved the program steadily toward an expected loss ratio of 1.00. The recommended change will ensure actuarial integrity in the program, thus encouraging continued participation by producers and private insurance companies.

Background
Expected loss ratios are simply the projected indemnity claims paid out by the insurance program divided by the insurance premium paid into the program (both producer and government portions of the premium). During the 1990's, the Federal Crop Insurance Act was revised to require the crop insurance program to operate with an expected loss ratio of not greater than 1.10 by 1995 and 1.075 by 1998. Consequently, the USDA assembled an 'Actuarial Blueprint' of changes to the program in order to improve actuarial performance. These measures included:

- Improved analysis of loss experience, resulting in general premium rate increases.
- Reduced yield guarantees for new producers who do not produce documentation of their past yield performance.
- The development of a taxpayer identification database that allows RMA to better track producers and their loss performance. This helps to prevent growers with poor loss experience (and high premium rates) from leaving the crop insurance program and then re-entering as a different entity with more favorable premium rates.
- Reviewed the language of crop insurance policies in order to clarify definitions, tighten underwriting rules, and clarify loss adjustment standards so that inappropriate indemnity payments are avoided.
- Increased the emphasis on program compliance and fraud prevention.
- Required Federally-reinsured crop insurance companies to retain more of the insured risk so that they have a clear incentive to assure the integrity of the crop insurance program.
- Expanded participation in the crop insurance program through improved marketing and the development of new products, allowing the crop insurance program to better diversify its risk, resulting in more stable actuarial performance.

ACCESS TO CROP INSURANCE DATA MINING INFORMATION

Recommendation in Brief

Allow private crop insurance companies direct access to data mining information that reveals potential fraud and charge a user fee for this access in order to fund improvements to the data mining system.

Problem

Fraud and abuse continue to be a serious concern for USDA and the crop insurance program. USDA uses computer technology to identify “bad actors” who may be abusing the program. These data mining activities have yielded significant results with an estimated $456 million in savings from crop years 2001- 2006. However, crop insurance companies, who share in the responsibility of identifying fraud and abuse, have only limited and often untimely access to this data.

Enhancements to the data mining system would further improve the ability of USDA and the crop insurance companies to expose fraud and abuse, but such enhancements require funding. Currently, USDA has no statutory authority to establish a fee system that would allow crop insurance companies to share in the costs associated with this shared benefit.

Recommended Solution

The Administration proposes enabling USDA’s Risk Management Agency (RMA) to allow private crop insurance companies to directly query data mining information that reveals potential crop insurance fraud and abuse. Companies would be allowed to query information related only to their respective clientele. In order to fund enhancements to the data mining system, the Administration also proposes requiring RMA to charge a user fee for this service.

Background

USDA has developed an extensive and successful data mining capability that is currently used to identify potential fraud and abuse in the program. The Department has also identified a number of other uses for this capability such as underwriting assistance and program analysis.

The crop insurance program is delivered to producers through a complementary relationship between the government and the private sector. Some of these private insurance companies have requested the ability to directly query this system to assist in their own fraud detection programs. The companies could also use this information to assist with its own program underwriting and risk retention formulations.

USDA’s data mining effort utilizes a contractor to build a data warehouse and develop queries to identify anomalies in the program. These anomalies are then vetted to determine if they result in fraud or abuse. This program has been very successful in maintaining program integrity. Additional uses of this system for program analysis allow USDA to study program performance and make rate recommendations to strengthen financial results and improve program performance.

Private crop insurance companies must have a program compliance function to participate in the program. The companies can use this data mining system to target its resources to areas with the highest probability of uncovering program abuse.

This information could be a valuable tool to assist private crop insurance companies in determining what level of risk they will take on policies they sell and service. Improved underwriting analysis could lead to additional profits for the companies, which could be used to share the cost of the data mining system through payment of the proposed user fee.

STRENGTHEN CROP INSURANCE PROGRAM COMPLIANCE

Recommendation in Brief
Allocate up to $10 million in annual funding to strengthen crop insurance compliance efforts.

Problem
Crop insurance fraud and abuse impact farmers and ranchers who buy the insurance, taxpayers who support government's share of the program and insurance companies that help underwrite the program. When fraud occurs, all of these groups share the resulting increased costs of such abuse.

Over the past 20 years, crop insurance program participation has doubled to 1.3 million policies, the amount of coverage provided has quadrupled to $50 billion, and the program has expanded into new models of insurance, such as revenue coverage and group coverage policies. While crop insurance has grown exponentially, funding for compliance activities has not significantly changed. The program is expanding beyond the ability of the current compliance technology and staff to maintain effective oversight and identify, assess, and correct program violations.

Recommended Solution
The Administration recommends redirecting up to $10 million annually to improve the integrity of the crop insurance program. This proposal would permit the use of existing funds, authorized by Section 522(e) of the Federal Crop Insurance Act, to increase compliance personnel, increase training, and expand and add analysis tools to make the compliance program more efficient and effective.

This funding would be used to strengthen the Risk Management Agency (RMA) compliance program, including identifying and utilizing innovative compliance strategies and technologies. For example, satellite imaging is currently only used as part of prosecutions to validate fraudulent program reporting. This additional funding would be used to expand this technology for detection and prevention in addition to deterrence. This additional funding would be used to expand this technology for detection and prevention in addition to deterrence. In addition, the funding can be used to support data mining efforts through development of the Comprehensive Information Management System (CIMS).

RMA would also use this funding to expand the use of other methods to identify and deter fraud and abuse in the crop insurance program. The Compliance Division would initiate training in Geographic Information Systems and other information technologies to improve data gathering and analysis. Limited training resources have restricted access to these tools and other technologies. Additionally, there is a critical need to place approximately 30 more compliance staff in the field.

Background
RMA's Compliance Division is responsible for identifying cases of non-compliance, recovering funds on behalf of the government, referring cases for criminal prosecution when appropriate,

and adjusting the program to correct identified vulnerabilities. Currently, the RMA Compliance Division has a staff of approximately 100 people to monitor 1.3 million crop policies with a combined liability, or risk, of nearly $50 billion. RMA uses data mining to identify policies and policyholders whose program experience appears inconsistent with their peers. Currently, the compliance staff is unable to investigate all of the results rendered by the data mining activities. The compliance staff must also assist in criminal prosecutions, investigate complaints, and conduct random reviews to assess program performance.

Section 522(e) of the Federal Crop Insurance Act provides $15 million annually to reimburse the research and development costs and cover maintenance costs of private submitters of approved insurance products and $25 million annually to carry out research and development for states that are underserved, states that have low participation, or for underserved agricultural commodities, including specialty crops. Funds not used for these purposes may be used for partnerships with public and private entities to increase the availability and use of risk management tools by producers. Each year, a substantial portion of the $40 million has not been used for the primary intended purposes of research contracting and reimbursement of research costs for privately submitted products. These funds have been redirected for use in other approved activities. The Administration is proposing that these funds instead be redirected to focus specifically on crop insurance compliance.

CROP INSURANCE
RESEARCH AND DEVELOPMENT

Recommendation in Brief
Provide the Federal Crop Insurance Corporation (FCIC) broader authority to contract for research and development to improve existing crop insurance programs.

Problem
Section 522(e) of the Federal Crop Insurance Act provides $15 million annually to reimburse the research and development costs of private submitters of approved insurance products and $25 million annually to carry out research and development for states that are underserved, states that have low participation, or for underserved agricultural commodities, including specialty crops. FCIC insures over 360 commodities not considered as underserved or specialty crops, and many states are not considered underserved due to high participation levels. Funds not used for these purposes may be used for partnerships with public and private entities to increase the availability and use of risk management tools by producers. Each year, unused funds have been directed toward risk management partnerships to the point that the Risk Management Agency is stressing its limited resources to manage these partnerships.

Meanwhile, FCIC needs to continually evaluate and improve its existing programs, including contracting for reviewing of actuarial rating methodologies, analyzing program performance, improving existing coverage, and including quality coverage, to assure these programs continue to meet the risk management needs of producers. With ever-changing agronomics, crop varieties, genetic improvements, and alternative uses of many traditional crops, FCIC has many research and development needs to maintain and improve its many existing insurance programs to ensure their effectiveness. Meeting the ever-changing needs of agricultural producers cannot be fully accomplished due to the limitations on contracting authority and available funding provided by Section 522(c) and 522(e) of the Act.

Recommended Solution
The Administration proposes amending section 522(c) of the Federal Crop Insurance Act to provide greater flexibility and broader authority for using the available $25 million for contracting to maintain and improve existing risk management products. Another provision within 522(c) would provide the additional contracting authority, while still ensuring adequate funding for low participation states, low participation commodities, and specialty crop producers. This proposed solution would provide FCIC with the contracting authority and funding necessary to 1) continually review, evaluate, and improve its existing programs to keep pace with technology, changing farming practices, alternative crop uses, and genetically modified crops, and 2) provide improved coverage for added value commodities and food grade quality crop production.

Background
The Agricultural Risk Protection Act of 2000 provided significant funding to FCIC for contracting for research and development and prohibited FCIC from doing its own research and development. However, the authorities and funding provided were limited and targeted to

underserved states, commodities, and specialty crops. These limitations and the prohibition on research and development do not provide FCIC the authority and available funding to contract for research and development to evaluate and improve many of its existing risk management programs. This recommendation would give FCIC the flexibility and financial capabilities to maintain and improve existing risk management programs for American agricultural producers, while still remaining diligent in addressing the needs of specialty crop producers.

CROP INSURANCE
STANDARD REINSURANCE AGREEMENT

Recommendation in Brief
Provide the authority for the USDA to renegotiate the financial terms of the Standard Reinsurance Agreement no more than once every 3 years.

Problem
The Agricultural Research, Extension, and Education Reform Act of 1998 contained provisions that prohibited changes to the financial terms of the Standard Reinsurance Agreement. The Agriculture Risk Protection Act of 2000 (ARPA) provided authority for USDA to renegotiate the financial terms once between 2001 and 2005. USDA did renegotiate the terms in 2004 with the new Standard Reinsurance Agreement implemented in 2005. USDA now is prohibited from making any further changes indefinitely. These financial terms include critical program cost components, such as the administration and operating cost allowance provided to the reinsured companies for program delivery expenses and risk sharing formulas that establish underwriting gains and losses. As the participation levels change and crop programs are adjusted to improve their financial performance, corresponding changes are necessary to ensure a balance of potential gains and losses between the reinsured companies and USDA.

Recommended Solution
The Administration recommends providing legislative authority for USDA to renegotiate the SRA financial terms and conditions once every three years. It is critical that USDA have the ability to adjust the Standard Reinsurance Agreement in response to the changing environment of the program. For example, the crop insurance program participation has grown significantly since the implementation of ARPA. Producers utilized the new subsidy rates to purchase crop insurance for the first time or purchase higher levels of coverage than they had in the past. These higher participation rates have resulted in more stable program performance. In addition, the inception of the catastrophic level of insurance has the effect of improving program financial performance far more than originally anticipated. As a result, the reinsured companies have enjoyed historically large underwriting gains in the last two years of the program. However, due to the statutory prohibitions in the adjustment of the financial terms and conditions, USDA cannot rebalance the risk sharing provisions to ensure that taxpayer investment is well utilized.

This provision would also permit the renegotiation of the SRA if the reinsured companies experience an unexpected adverse impact. For example, if a drastic change was made to the subsidy rate for catastrophic coverage and a large movement of growers exited the program, companies would find themselves in a negative situation that would be difficult to mitigate due to the prohibition on changes to the SRA.

Background
The Risk Management Agency enters into a SRA with private insurance companies that sell and service the crop insurance program. The companies are provided with options to cede risk from individual crop insurance policies to USDA prior to inception of insurance coverage. In essence, these private insurance companies share in the risk of the program with the Government. They

have the opportunity for profit and the opportunity to suffer financial losses. The specifics of how the risk is shared are contained in the financial terms of the SRA. Historically, the USDA has renegotiated the reinsurance terms with the private industry on an as needed basis. However, that situation was changed in the Agriculture Research, Extension, and Education Reform Act of 1998, and USDA is now prohibited from negotiating changes to the SRA.

INCREASE CROP INSURANCE PARTICIPATION WHILE CONTROLLING PROGRAM COSTS

Recommendation in Brief

Implement a series of crop insurance reforms to increase program participation, reduce the need for ad hoc disaster assistance programs, and control program costs.

Problem

The Federal crop insurance program has been amended over the years to help farmers deal more effectively with the effects of natural disasters and to reduce the need for ad hoc disaster assistance. While program participation and coverage levels purchased by farmers have increased, Congress has still provided ad hoc disaster assistance. Since 2000, over $10 billion has been provided in ad hoc disaster assistance, indicating further program changes are needed to obviate the need for such assistance. As Gene from Nebraska suggested, “Require nationwide participation by all ag producers in the crop insurance program. The goal here is to eliminate all crop disaster programs.”

As program participation has grown, the administrative and operating expense reimbursements paid by the Federal Crop Insurance Corporation (FCIC) to the reinsured companies to cover their costs of program delivery have also increased. During 2000-2005, administrative and operating expense reimbursements averaged over $700 million per year. In addition, underwriting gains by the reinsured companies have increased dramatically in recent years. Underwriting gains averaged $430 million annually during 2000-2005 and exceeded $940 million in 2005. In addition, the government subsidizes about 60 percent of producer premiums. These large and growing costs have raised concerns about the high level of program costs per dollar of assistance provided to producers.

Recommended Solution

Implement a series of Federal crop insurance program reforms including:

1. Require program crop producers to purchase crop insurance at additional levels of coverage to be eligible for benefits under farm price and income support programs.
2. Reduce premium subsidies by 5 percentage points for coverage levels of 70 percent or below and 2 percentage points for coverage levels of 75 percent or higher.
3. Reduce the imputed premium on catastrophic coverage (CAT) by 25 percent and charge an administrative fee equal to or greater than $100 or 25 percent of the new, reduced imputed premium, with a maximum fee of $5,000.
4. Reduce the administrative and operating expense reimbursement to the reinsured companies by 2 percentage points for all policies other than CAT policies.
5. Increase the net book quota share (USDA FCIC’s share of risk on premiums currently retained by the companies) from the current 5 percent to 22 percent and provide a ceding commission to the reinsured companies of 2 percent of premium.

Background

Currently, participation in the Federal crop insurance program is voluntary. This proposal would require producers of program crops to purchase crop insurance that covers 50 percent or higher of the expected market value of their crop or lose farm program benefits. Producers now can voluntarily buy CAT coverage for an administrative fee, with the FCIC paying a 100-percent subsidy on the CAT premium. CAT covers 50 percent of yield and 55 percent of the market price, which is equivalent to 27.5 percent of the producer's expected value of production. Under this proposal, a producer would have to purchase at least 50 percent coverage on yield and 100 percent coverage on market price, which would be equivalent to covering 50 percent of the expected market value of the crop. Requiring participation at additional levels of coverage, in combination with the Supplemental Deductible Coverage option also being proposed on page 6-7 under this title, would greatly mitigate any need for ad hoc disaster assistance.

Premium subsidies currently vary from 67 percent at lower levels of coverage to 38 percent at higher levels. Reducing the subsidy level by 5 percentage points on lower coverage levels and 2 percentage points on higher coverage levels, as proposed, would still leave government subsidy levels quite high. In addition, a producer choosing to reduce coverage levels could still achieve protection from the higher deductible by purchasing the new Supplemental Deductive Coverage option.

Program costs under CAT coverage have been low, so reducing the imputed premium would bring the premium in line with actual losses. Charging 25 percent of the imputed premium for CAT coverage would only affect nonprogram crop producers who choose CAT coverage, since program crop producers would be required to buy higher levels of coverage. Since some very large producers have been purchasing CAT at the current low-level fee of $100 per crop per county, charging a premium-based fee reflects a more appropriate sharing of risk between the producer and the government.

Reducing the administrative and operating expense reimbursement to the companies and raising the net book quota share would reduce the expected gains received by reinsured companies, which have been substantial in recent years. The current reimbursement rate is 7 percent of premiums for CAT policies, 24.5 percent for higher levels of coverage, and 20.8 percent for revenue policies with coverage levels of 75 percent or less. Each of these levels, except for CAT policies, would be reduced by 2 percentage points. Expense reimbursement would also be reduced 2 percentage points for revenue policies with coverage above 75 percent and for group risk and other policies as well. The increase in net book quota share effectively means reinsured companies would have to reinsure 22 percent of their retained premium with FCIC rather than with private companies. This would enable FCIC to attain any underwriting gains or losses on this business that otherwise would have accrued to the companies. In return, FCIC would pay the companies a commission, similar to what companies receive when they reinsure their risk in private reinsurance markets.

ENSURING FAIRNESS OF DAIRY RESEARCH AND PROMOTION ASSESSMENTS

Recommendation In Brief

Enable the collection of research and promotion assessments on imported dairy products, as called for in the 2002 farm bill, by requiring these assessments on a consistent basis domestically.

Problem

The 2002 farm bill amends the National Dairy Promotion and Research Program to collect assessments on all imported dairy products similar to the current assessments levied on domestic dairy products. This provision also requires USDA to consult with the United States Trade Representative (USTR) to ensure that this requirement is consistent with the international trade obligations of the Federal government.

During this consultation, an issue was identified that requires statutory changes to address. Current law allows domestic dairy assessments to be levied only in the 48 contiguous states, exempting Alaska and Hawaii, as well as Puerto Rico. U.S. trading partners have claimed this limitation treats domestic industries more favorably than importers, thereby violating U.S. trade obligations. This unanticipated issue has prevented the implementation of dairy import assessments, as suggested in the 2002 farm bill.

As Larry at the Virginia Farm Bill Forum contended, policy-makers “should implement the collection of Dairy Promotion and Research check-off dollars on imported dairy products. The production of Alaska and Hawaii make up 0.00014 of the total U.S. production.” Greg from Utah called for, “…the total enforcement of the dairy check-off dollars for imported dairy products…Right now we've got an uneven playing field in that area.”

Recommended Solution

The Administration proposes amending Subtitles B and C of the Dairy Production Stabilization Act of 1983 to ensure that dairy promotion and research assessments apply to Puerto Rico, Hawaii, and Alaska. This proposal would change the definition of United States in this Act to be consistent with the definition used by USTR and our trading partners, which includes all 50 States, the District of Columbia, and Puerto Rico. This policy change will allow dairy research and promotion assessments on imports, as envisioned in the 2002 farm bill, without concern of potential World Trade Organization disputes.

Background

Section 1505 of the Farm Security and Rural Investment Act of 2002 amends the National Dairy Promotion and Research Program, authorized by the Dairy Production Stabilization Act of 1983, to provide for an assessment to be collected on all imported dairy products to fund research and generic advertising and promotion activities. The level of assessment would be equivalent to 15 cents per 100 pounds of farm milk, the rate currently paid by dairy farmers located in the 48 contiguous states. Section 1505 also requires the consultation with USTR.

ORGANIC FARMING INITIATIVES

Recommendation in Brief

Re-authorize and expand the Organic Certification Cost Share Program and provide funding for organic farming research and comprehensive market price information gathering. These organic farming initiatives total $61 million in additional funding over 10 years.

Problem

There is increased demand for organic supply and more farmers are interested in transitioning from traditional farming to organic farming but barriers exist. The requirements to be certified organic are lengthy and can be quite costly, especially for small farmers. In addition, a key deterrent to transition is the lack of solid production and market data to inform farmers, processors, wholesalers and retailers about the supply of key organic commodities and pricing data for those commodities.

Organic food consumption now constitutes about 2.5 percent of the food market. Retail organic sales are currently at $15 billion and growing by about 15-20 percent annually. U.S. sales of organic food and fiber now constitute one of the fastest growing segments of U.S. agriculture.

Organic farmers, just like traditional farmers, are also looking for opportunities in the global market place. More and more trading partners are seeking organic certification recognition to gain access to the U.S. organic consumer market.

Finally, with rapid growth in the organic market comes an inevitable increase in the number of alleged violations – many due to lack of knowledge about the program and the regulations. But a growing number are due to willful attempts to circumvent the regulations to capture profits at consumers' expense. In some cases, the regulations themselves appear insufficient to support enforcement activity. To address these problems, gaps in the regulations must be addressed and compliance and enforcement activity must be increased.

Recommended Solution

The Administration proposes enhancing the role of U.S. organic production agriculture and organic markets through the following authorities:

1. Increase the cost share program from the current 15 states to all 50 states and permit producers and handlers to be eligible. Increase cost share reimbursement from $500 to $750 maximum or 75 percent of costs incurred, whichever is lowest. This provision is helpful to small organic farmers who have trouble with the cost of the certification. The program should be authorized to expend up to $5 million annually in mandatory funding.
2. Reauthorize and fund data collection to identify and publish organic production and market data initiatives and surveys. Additionally, authorize and fund comprehensive price reporting. Organic farmers and those wishing to transition into organic farming lack solid production and market data about the supply of key organic commodities as well as pricing data for these commodities. Conventional farmers have access to USDA data which they can use to

plan crop plantings and make marketing decisions. Similar data is not available to organic farmers. The farm bill should authorize $1 million in mandatory funding to be available until expended for this data collection and publication.

3. Invest an additional $10 million in mandatory funding to be available until expended for organic research. This new funding would focus on conservation and environmental outcomes and new and improved seed varieties especially suited for organic agriculture.
4. Eligibility for the proposed enhanced Environmental Quality Incentives Program (EQIP) cost-share assistance would include a broad range of land uses including organically farmed land. (For further information, see the proposal entitled "Environmental Quality Incentives Program" on pages 43 – 45.)
5. Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities. Organic agriculture would be allowed to compete for Market Access Program funding to help develop and increase the organic export market. (For further information, see the proposal entitled "Enhance the Market Access Program" on pages 69 – 70.)

Background

The National Organic Program (NOP) originated with passage of the Organic Foods Production Act of 1990. The NOP regulations provide voluntary, uniform marketing standards for the production and processing of organic products that are to be labeled as "100 percent organic," "organic," or "made with organic ingredients," based on their final organic ingredient content. Essentially, the standards are a set of sustainable agricultural production and processing practices, using little or no chemicals, synthetics, irradiation, genetically modified organisms, or sewage sludge. All operations must be certified, by an accredited USDA certifying agent – a private entity licensed by USDA that verifies that each operation is producing to the NOP standards. Products that meet the standards are eligible to apply a USDA seal, for "100 percent" and "organic" (95 percent) content product. Additionally, the Certification Cost Share Program helps defray the cost of annual organic certification, particularly important to smaller producers and processors. Current NOP resources include an annual budget of approximately $2.3 million.

INCREASE PURCHASES OF FRUITS & VEGETABLES FOR NUTRITION ASSISTANCE PROGRAMS

Recommendation in Brief

Utilize an additional $2.75 billion of Section 32 funds over ten years to specifically purchase fruits and vegetables for USDA's domestic nutrition assistance programs**,** including the National School Lunch and Breakfast Programs, The Emergency Food Assistance Program, and other commodity distribution programs.

Problem

The most recent Dietary Guidelines for Americans recommends increasing fruit and vegetable consumption to 4-½ cups per day for a reference 2,000-calorie diet, yet research shows that average consumption of fruits and vegetables among the adult population is 2 to 2-1/2 cup equivalents per day and among school children is approximately 2 cup equivalents per day. Consumers commonly note that they limit consumption of fruits and vegetables because they are perceived to be expensive, time consuming to prepare and perishable. USDA nutrition assistance programs reach one in five Americans. Therefore providing readily accessible servings of fruits and vegetables to low-income populations and schools could significantly increase overall consumption and improve health.

Additionally, five program crops (rice, cotton, wheat, corn and soybeans) continue to receive the vast majority of Federal agriculture assistance even though U.S. specialty crop production is now equal in value to U.S. program crops. In fact, 60 percent of U.S. farmers and ranchers do not receive direct cash support from the farm bill, simply because they do not raise a program crop. These specialty crop producers face the same weather and other production challenges as their program crop counterparts.

This equity issue was raised at farm bill forums across the country. For example, James of New York testified, "Historically, the farm bill has benefited a small but crucial group, farmers. However, by supporting expansion of…(fruit and vegetable purchases), we have the unique opportunity to use the 2007 farm bill to directly and positively impact the health of our children and begin to reverse a dangerous trend toward obesity."

Recommended Solution

The Administration proposes to increase Section 32 purchases of fruits and vegetables by an additional $200 million in fiscal year 2008, $225 million in FY 2009, $250 million in FY 2010, $275 million in FY 2011, and $300 million in FY 2012 and thereafter above the last five-year annual average level of approximately $291 million.

Under this proposal, USDA would survey the National School Lunch Program and other nutrition assistance programs to determine which traditional fruit and vegetable products are most in demand. USDA intends that this additional money be used to purchase products that are currently provided to all nutrition assistance programs.

USDA would also consider offering value-added items to schools if there is demand. Some of the products USDA might offer include fruit cups, juice boxes, ready-to-eat fresh-cut vegetables in bags, and ready-to-eat fresh-cut fruits in bags. Fresh-cut vegetables and fruits provided by this proposal would support schools' efforts to increase the utilization of salad bars.

Background

The Agricultural Risk Protection Act of 2000 provided USDA $200 million in funding for the support of fruit and vegetable markets. Most of this funding went to food banks and other feeding programs, in addition to schools. This proposed purchase program would operate in much the same manner.

Purchasing traditional fruit and vegetable products also supports domestic markets, and helps reduce surplus inventory by producers. When balancing purchases of lower cost traditional items with purchases of higher cost value-added items, USDA is better able to support producer markets while providing products most attractive to school children to increase their consumption.

SUMMARY XI
SPECIALTY CROPS

SUMMARY OF SPECIALTY CROP SUPPORT

Recommendations In Brief
Create greater equity in farm policy by increasing assistance for specialty crop growers through an array of changes that will enhance their ability to compete in the marketplace.

Problem
Specialty crop producers have traditionally been under-represented in farm bill policy. Five program crops receive 93 percent of direct farm bill cash subsidies, yet the value of U.S. specialty crops is equivalent to the combined value of these five crops. Sixty percent of all farmers do not raise program crops and therefore do not receive direct subsidies.

At Farm Bill Forums across the country, specialty crop producers did not ask for direct subsidies similar to the program crops, but they did request additional support to address sanitary and phytosanitary issues, market promotion, and targeted research. For example, Chris in Washington State said, “Potato growers do not want traditional programs with direct payments but need assistance in other program areas.” Mike in Rhode Island said, “We need equitable distribution of federal funds to the areas and to an array of producers that do not grow program crops.” Comments made by Charles in Georgia reflect the comments shared by many other producers. He said, “Mr. Secretary, your assistance is paramount in assuring the U.S. specialty crop industry remains competitive, through proper support of research, nutrition, promotion and conservation efforts.”

Recommended Solution
The Administration is recommending a broad package of proposed changes to several titles of the farm bill to provide additional support to specialty crop producers. Following is a list of the major components of the package.

Conservation Title
Enhance several conservation programs that assist specialty crop producers in managing natural resources. These include: significant increases to the Wetlands Reserve Program, Environmental Quality Incentives Program, and the Private Lands Protection Program. (Details of each proposal may be viewed under the Conservation Title, pages 40 - 63.)

Trade Title
Phase-in $68 million in enhanced mandatory funding for the Technical Assistance for Specialty Crops (TASC) program including $4 million in FY 2008; $6 million in FY 2009; $8 million in FY 2010; and $10 million thereafter through FY 2013. Increase the maximum allowable annual project award from $250,000 to $500,000 and allow more flexibility to grant TASC project timeline extensions. (For further information, see the proposal entitled “Expand Technical Assistance for Specialty Crops” on pages 67 – 68.)

Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities. MAP funding has shown to be an effective use of funds to expand markets for U.S. agricultural products. While specialty crops are already a significant user of this program, USDA will apportion this new, additional funding to help address the inequity between crops that are directly subsidized and those commodities that are not directly subsidized. (For further information, see the proposal entitled "Enhance the Market Access Program" on pages 69 - 70.)

Increase support for a number of initiatives that help to address sanitary and phytosanitary (SPS) issues and other trade restrictions that affect specialty crop and other producers:

1. Establish a new grant program investing $20 million over ten years to further focus resources on addressing international sanitary and phytosanitary issues. (For further information, see the proposal entitled "Grant Program to Address Sanitary and Phytosanitary Issues" on page 71 - 72.)

2. Authorize and provide long-term mandatory funding of $15 million over ten years to increase U.S. presence at international standard-setting bodies, such as the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization. (For further information, see the proposal entitled "Support International Trade Standard Setting Activities" on page 72.)

3. Provide enhanced monitoring, analytical support, and other technical assistance to support U.S. agriculture in bringing forward or responding to significant trade disputes and challenges. For example, U.S. specialty crop exports are sometimes threatened by rampant trademark piracy in international markets like China and Hong Kong. USDA technical assistance could help the specialty crop industry address these challenges. (For further information, see the paper entitled "Technical Assistance to Resolve Trade Disputes" on pages 73 – 74.)

Nutrition Title

Provide new mandatory funding for the purchase of additional fresh fruits and vegetables for use in the National School Lunch and Breakfast Programs. This $500 million of funding over 10 years represents a net increase in the total purchase of fruits and vegetables for school meals over levels available under any other authorities. (For further information, see the proposal entitled "Promoting Healthful Diets in Schools" on pages 103 – 104.)

Encourage food stamp nutrition education and establish a new "USDA Initiative to Address Obesity among Low Income Americans," a five-year $20 million competitive grant demonstration program to develop and test solutions to the rising problem of obesity. These efforts could include rigorous independent evaluations to identify effective approaches, such as incentives at point-of-sale for purchases of fruits and vegetables by food stamp participants. (For further information, see the paper entitled "Food Stamp Program: Improving Health through Nutrition Education" on pages 95 – 96.)

Support school efforts to offer meals based on the most recent Dietary Guidelines for Americans, including the encouragement of the increased consumption of fruits and vegetables. (For further information, see the paper entitled "Promoting Healthful Diets in Schools" on pages 103 – 104.)

Reauthorize the Emergency Food Assistance Program (TEFAP) and provide more fruits and vegetables within the program. (For further information, see the proposal entitled "The Emergency Food Assistance Program" on pages 97 - 98.)

Rural Development Title
Prioritize consideration of project applications that involve specialty crops in the Rural Development Value-added Grants awards-process. (For further information, see the proposal entitled "Streamline Rural Development Programs" on pages 122 - 123.)

Energy Title
Initiate a new, temporary program to provide $100 million in direct support to producers of cellulosic ethanol. Eligibility for this program would be restricted to specialty crop wastes and other cellulosic biomass feedstocks. (For further information, see the proposal entitled "Cellulosic Bioenergy Program" on pages 145 – 146.)

Research Title
Invest $1 billion over 10 years to establish a Specialty Crop Research Initiative to provide science-based tools for the specialty crop industry. (For further information, see the proposal entitled "Specialty Crop Research Initiative" on pages 131 – 132.)

Miscellaneous Title
Utilize an additional $2.75 billion of Section 32 funds over 10 years to specifically purchase fruits and vegetables for the National School Lunch Program and other nutrition programs. (For further information, see the proposal entitled "Increase Purchases of Fruits and Vegetables for Nutrition Assistance Programs" on pages 168 – 169.)

SUMMARY XII BEGINNING FARMERS

SUMMARY OF SUPPORT OF BEGINNING FARMERS AND RANCHERS

Recommendations In Brief
Increase assistance to beginning farmers and ranchers through an array of changes that will help them to become established in production agriculture.

Problem
Beginning farmers and ranchers entering production agriculture face many challenges. High land prices, increasing equipment costs, and government payments predominantly delivered to larger, more established farmers serve as barriers to entry.

These issues were raised at many USDA Farm Bill Forums. For example, Devan from Kentucky said, "One of the biggest barriers, I believe, facing a new generation of farmers is the inability to start farming from scratch. Today if anyone wanted to begin farming they either have to marry into a family farm or inherit an existing family-owned farm. It is extremely difficult, if not impossible, to simply start farming." Dan in California said, "The increasingly high investment costs and relatively low return rates associated with production agriculture are some of the most prominent unintended consequences that discourage future generations from entering production agriculture."

Recommended Solution
The Administration is recommending a broad package of proposed changes to several titles of the farm bill to provide additional support to beginning farmers and ranchers. Following is a list of the major components of the package.

Commodity Title
Provide beginning farmers a 20 percent increase in their direct payment rate, adding $250 million to producer income over 10 years. After the initial five years, these producers would no longer be eligible for the higher direct payment rate. (For further information, see the proposal entitled “Increase Direct Payment for Beginning Farmers” on pages 16 – 17.)

Conservation Title
Reserve 10 percent of farm bill conservation financial assistance for beginning farmers as well as socially disadvantaged producers under a new Conservation Access Initiative. (For further information, see the proposal entitled “Conservation Access for Beginning and Socially Disadvantaged Producers” on pages 57 – 58.)

Credit Title
Enhance the existing Beginning Farmer and Rancher Downpayment Loan Program to help ensure the next generation of production agriculture – cutting the interest rate in half to two percent; deferring the initial payment for one year; doubling the potential beginning farmers buying power by increasing the maximum loan value; and decreasing the minimum beginning farmer contribution from 10 percent of the property purchase price to 5 percent. (For further

information, see the proposal entitled “Beginning Farmer and Rancher Downpayment Loan Program” on pages 110 –111.)

Double the statutory target of USDA direct operating loans for beginning and socially disadvantaged farmers and increase the target for direct farm ownership loans for beginning and socially disadvantaged farmers to 100 percent. Overhaul the federal repooling procedures to ensure that these targets are reserved only for beginning and socially disadvantaged farmers to the maximum extent possible. (For further information, see the proposal entitled “Loans Targeted to Beginning and Socially Disadvantaged Farmers” on pages 108 – 109.)

Increase the existing statutory limits of $200,000 for direct ownership loans and $200,000 for direct operating loans to a maximum of $500,000 indebtedness for any combination of the two loan types. (For further information, see the proposal entitled “FSA Direct Loan Limits” on pages 112 – 113.)

SUMMARY XIII SOCIALLY DISADVANTAGED PRODUCERS

SUMMARY OF SUPPORT OF SOCIALLY DISADVANTAGED PRODUCERS

Recommendations In Brief

Increase assistance to socially disadvantaged farmers and ranchers through an array of changes that will help them meet the challenges of today's production agriculture.

Problem

Socially disadvantaged (SDA) farmers and ranchers face many challenges. Increased production costs, lack of economies of scale, and government payments predominantly delivered to the largest farms serve as significant barriers to success for these farmers.

More than the typical U.S. farm, SDA-operated farms tend to raise livestock and specialty crops such as fruits and vegetables rather than field crops. Since commodity program payments have traditionally focused on the six major program crops, minority and other socially disadvantaged farmers have often been underserved by the farm bill safety net. In many cases, farm income contributes less to the SDA household's overall income, so rural development programs and off-farm employment are often more relevant to these producers.

The 1992 farm bill took the important step of establishing the Office of the Assistant Secretary for Civil Rights. This new office has worked with all USDA mission areas to help make tremendous strides in reaching out to help SDA farmers. But more can be done. Extensive outreach and targeted assistance are appropriate to ensure these producers are aware of and participate in these programs. As Catherine from Mississippi said, "Previous farm policies have forced many minority producers to sell their land only to [be] taken in by large corporations." And Lorette noted at the North Carolina Farm Bill Forum, "the current programs cannot be accessed by small and particularly minority farmers. We need a lot more resources to work one-on-one with farmers to eradicate all the problems in the system, to get farmers into the programs that do exist."

Recommended Solution

The Administration is recommending a broad package of proposed changes to several titles of the farm bill to provide additional support to socially disadvantaged farmers and ranchers. Following is a list of the major components of the package.

Conservation Title

Reserve 10 percent of farm bill conservation financial assistance for beginning farmers and socially disadvantaged producers under a new Conservation Access Initiative. (For further information, see the proposal entitled "Conservation Access for Beginning and Socially Disadvantaged Producers" on pages 57 – 58.)

Credit Title

Make socially disadvantaged farmers eligible for the Beginning Farmer and Rancher Downpayment Loan Program. Enhance this loan program in several important ways – cut the interest rate in half to two percent; defer the initial payment for one year; double the potential beginning farmers buying power by increasing the maximum loan value; and decrease the minimum farmer contribution from 10 percent of the property purchase price to five percent. (For further information, see the proposal entitled “Beginning Farmer and Rancher Downpayment Loan Program” on pages 110 – 111.)

Double the statutory target of USDA direct operating loans for beginning and disadvantaged farmers and increase the target for direct farm ownership loans for beginning and disadvantaged farmers to 100 percent. Overhaul the federal repooling procedures to ensure that these targets are reserved only for beginning and disadvantaged farmers to the maximum extent possible. (For further information, see the proposal entitled “Loans Targeted to Beginning and Disadvantaged Farmers” on pages 108 – 109.)

Increase the existing statutory limits of $200,000 for direct ownership loans and $200,000 for direct operating loans to a maximum of $500,000 indebtedness for any combination of the two loan types. (For further information, see the proposal entitled “FSA Direct Loan Limits” on pages 112 – 113.)

SUMMARY XIV
BUDGET SCORE

ADMINISTRATION'S FARM BILL PROPOSAL

Estimated Change from Baseline, Budget Authority, 2008-2017

(Dollars in Millions)

Title and Proposals	*Current Services Baseline* 2008-2017	*Administration Proposal* *change from baseline* 2008-2017
Commodities		
Marketing Assistance Loan Program	8,807	-4,500
Posted County Price and Loan Repayment Changes	na	-250
Direct Payment Program	52,491	5,500
Direct Payments for Beginning Farmers	na	250
Revenue-based Counter-cyclical Payment Program	11,245	-3,700
Payment Limits and Eligibility	na	-1,500
Section 1031 Farmland Exchanges	na	-30
Dairy	613	793
Sugar	1,410	-1,107
Special Cotton Competitiveness Program	na	0
Planting Flexibility Limitations	na	0
Retire Crop Bases In Nonagricultural Use	na	0
Conservation Enhanced Payment Option	na	50
Sodsaver	na	0
Continuing WTO Compliance	na	0
Total	74,566	-4,494
Conservation		
Revised Environmental Quality Incentives Program (EQIP), including:	13,640	4,250
Regional Water Enhancement Program	na	1,750
Wildlife Habitat Incentives Program	0	na
Ground and Surface Water Conservation	600	na
Agricultural Management Assistance	100	na
Conservation Innovation Grants	200	1,000
Klamath	0	0
Conservation Security Program	7,977	500
Private Lands Protection Program, including:	970	900
Grassland Reserve Program	0	na
Farm and Ranch Land Protection Program	970	na
Healthy Forest Reserve Program	a	na
Conservation Reserve Program	25,656	0
Wetlands Reserve Program	455	2,125
Conservation Access for Beginning and Limited Resource Farmers	na	0
Market-based Conservation	na	50
Merit-based Funding	na	0
Emergency Landscape Restoration Program	a	a
Total	48,698	7,825

ADMINISTRATION'S FARM BILL PROPOSAL
Estimated Change from Baseline, Budget Authority, 2008-2017
(Dollars in Millions)

Title and Proposals	*Current Services Baseline* 2008-2017	*Administration Proposal* *change from baseline* 2008-2017
Trade		
Technical Assistance for Specialty Crops	0	68
Market Access Program	2,000	250
SPS Issues Grant Program	na	20
Support Trade Standard Setting	na	15
Technical Assistance for Trade Disputes	a	0
Trade Capacity Strategically Important Regions	na	20
Reform Export Credit Programs	na	0
Facility Guarantee Program	0	16
Repeal EEP and Trade Strategy Report	0	0
Cash Authority for Emergency Food Aid	na	0
Total	2,000	389
Nutrition		
Food Stamp Program, including:	436,145	-66
Elderly and Working Poor	na	1,378
Streamlining, Modernization & Program Integrity	na	-1,544
Improving Health Through Nutrition Education	na	100
TEFAP	1,400	0
FDPIR	913	27
Promoting Healthy Diets, including:	na	506
School Lunch F&V Purchases	na	500
School Purchase Study	na	6
Senior Farmers Market	150	0
Total	438,608	467
Credit		
Farm Credit, including:	a	0
Loan Targets for Beginning and Socially Disadvantaged Farmers	a	0
Beginning Farmer and Rancher Down Payment Loans	a	0
Direct Loan Limits	a	0
Total	a	0
Rural Development		
Rural Critical Access Hospitals	a	85
Enhance Rural Infrastructure	a	500
Streamline Rural Development Programs	na	0
Total	a	585

ADMINISTRATION'S FARM BILL PROPOSAL
Estimated Change from Baseline, Budget Authority, 2008-2017
(Dollars in Millions)

Title and Proposals	*Current Services Baseline* 2008-2017	*Administration Proposal* *change from baseline* 2008-2017
Research		
Reorganize REE	na	0
Bioenergy and Bioproducts Research Initiative	na	500
Specialty Crop Research Initiative	na	1,000
Foreign Animal Disease Research	na	0
Total	na	1,500
Forestry		
Comprehensive Statewide Planning	na	0
Landscape Scale Competitive Grant Program	na	0
Forest Wood to Energy	na	150
Community Forests Working Lands Program	na	0
Total	na	150
Energy		
Biomass Research and Development Act Initiative	0	150
Renewable Energy Systems and Energy Efficiency--Grants	a	500
Renewable Energy Systems and Energy Efficiency--Loans	a	210
CCC Bioenergy Program for Cellulosic Ethanol	na	100
Federal Biobased Product Procurement Program	0	18
Total	0	978
Miscellaneous		
Crop insurance program, including:	54,641	-2,511
Supplemental Deductible Coverage	na	350
Expected Loss Ratio	na	-1,071
Sharing Data Mining Information	na	0
Strengthening Compliance	na	0
Expand Research and Development Authority	na	0
Authorize Renegotiation of Standard Reinsurance Agreement	na	0
Increase Participation While Controlling Costs	na	-1,790
Dairy Research and Promotion Program Fairness	na	0
Organic Program Initiatives	na	61
Increase Section 32 Fruit & Vegetable Purchases	na	0
Total	54,641	-2,450
TOTAL, Above Items	618,513	4,950

na = not applicable (proposal not in baseline or included in other base or proposed programs);
a = discretionary account; 0 = no mandatory spending.