EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 25, 2007
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 2419 – Farm, Nutrition and Bioenergy Act of 2007
(Rep. Peterson (D) MN)

The Administration appreciates the progress that the House Agriculture Committee has made in drafting a new farm bill and the Committee's willingness to work with the Administration. The House bill contains the first step toward reform; however, more reform is needed, as in several areas the Committee's bill moves backward.

The Administration is concerned that the House bill "offsets" $4.7 billion in real spending with changes in the timing of direct, counter-cyclical, and crop insurance payments. These shifts in timing do not result in real savings to the taxpayers. The Administration would strongly oppose tax increases as offsets, and the unnecessary expansion of the Davis-Bacon authorities.

The final farm bill should include further real reform, should identify offsets without gimmicks or tax increases, and should not include an expansion of Davis-Bacon. The Administration believes these concerns can be addressed by continuing to work with Congress. However, if the bill were presented to the President in its current form, the President's senior advisors would recommend that he veto the bill.

Commodity and Crop Insurance Program Concerns

The Administration supports the inclusion of direct attribution coupled with the elimination of the "three-entity rule" and the reduction of subsidies to crop insurance companies. The Administration also supports the introduction of a revenue-based counter-cyclical program. In addition, the Administration supports the reduction of the loss ratio in crop insurance to 1.0, the reduction of the Administrative and Operating expense reimbursements to the companies by 2 percentage points, and the inclusion of a supplemental crop insurance program to improve the safety net for producers. Furthermore, the Administration supports increased funding for specialty crops and for beginning farmers.

The House should go further, however, and require producers to lock in loan deficiency payments only when they sell their crops, thereby preventing multi-billion dollar pay-outs when prices temporarily drop. The Administration strongly opposes increases in target prices (income support levels) and loan rates (minimum farm prices) for program crops and sugar, as they would shift the balance of support in a more potentially trade-distorting direction and possibly would encourage farmers to plant for government payments rather than according to market demand. As a result, our trading partners would question how these changes and new cotton textile mill subsidies would be consistent with existing WTO obligations to limit trade-distorting support. The Administration supports lifting the fruit and vegetable planting restrictions to eliminate any question that direct payments are "green box" in the light of the WTO rulings in the cotton dispute with Brazil.

The Administration opposes the provision allowing crop insurance companies to collude during the renegotiation of financial terms of the standard reinsurance agreement, which would likely raise consumer prices and government costs. The Administration also urges the House to include additional crop insurance reforms, including mandatory purchase of crop insurance for Title 1 recipients along with the proposed offsets. In addition, the Administration has concerns that the supplemental insurance provision in the House bill will provide growers with less choice and encourages the House to consider, instead, using the Administration's supplemental deductible coverage.

The Administration urges the House to increase support for beginning farmers. At the same time, the Administration does not support subsidies to farmers with an Adjusted Gross Income above $200,000 averaged over three years, who are among the wealthiest 2 percent of American taxpayers. The Administration strongly opposes the complete elimination of the payment cap on marketing loan payments, which would undermine the partial reform of payment limits in the bill and allows the largest producers to capture even larger subsidy payments.

<u>Conservation Program Concerns</u>

The Administration proposed a record level of funding for conservation programs and supports the Committee's action to enhance USDA's conservation programs, including the inclusion of the Regional Water Enhancement Program (RWEP), which provides needed resources to producers and partners to improve water quality and water conservation while sustaining agriculture. The House should fully fund the RWEP program and not restrict the Department's ability to award grants competitively to support broad coalitions regardless of the geographic location.

The Administration opposes the House bill for failing to protect native grasslands from conversion to cropland, and for failing to consolidate the programs, which would improve access for farmers and ranchers. The bill also would impede conservation program performance by eliminating the requirement for U.S. Fish and Wildlife Service representation on State Technical Committees and coordination on the Wetland Reserve Program and overlooks the need for monitoring compliance and program performance necessary to demonstrate long term conservation benefits.

<u>Nutrition Program Concerns</u>

The Administration supports inclusion of nutrition proposals to improve access and better reflect the needs of Food Stamp recipients and state agencies, and proposals to remove penalties for college and retirement savings, child care expenses and military combat pay. The House should further reduce unnecessary costs and improve program integrity by limiting categorical eligibility to those who receive only TANF or SSI cash benefits.

In addition, the Administration strongly opposes the Committee's proposal to restrict States' ability to competitively source Food Stamp Program functions in an effort to streamline and improve the program's administration. The Administration carefully oversees State modernization efforts, including increased access and integrity, to insure improved cost-effectiveness and accountability.

The Administration opposes Section 4303, which would expand the Fruit and Vegetable Program to all States and would increase direct spending by $350 million over five years. The Administration's farm bill proposal increases the availability of fresh fruits and vegetables through the school meal programs that make better use of existing purchase authorities and existing programs.

Other Concerns

The Administration strongly opposes the provision that would raise taxes on payments by U.S. subsidiaries to foreign affiliates. In addition to being a tax increase, this provision would discourage foreign investment in the United States, override tax treaties the U.S. has with many nations, and raise questions under other international agreements. Foreign investment in the United States creates American jobs and strengthens economic growth. This provision would adversely affect job creation in the U.S. and relationships with our major trading partners and could provoke retaliation in the form of higher foreign taxes on U.S. firms.

The Administration supports the inclusion of the Administration's proposal of $1.6 billion for programs designed to reduce the Nation's dependence on oil by encouraging the development of cellulosic ethanol. However, the Administration is strongly opposed to the expansion of Davis-Bacon Act requirements to grants and loan guarantees for ethanol plant construction projects.

On rural development, the House bill fails to provide mandatory funding for renovations needed at many rural critical access hospitals, to address the backlog of rural infrastructure projects, and to streamline the various Rural Development programs through consolidation.

With regard to all farm programs, the Administration believes it is vitally important for the U.S. to comply with its WTO obligations. Otherwise, there is a risk that United States farm and other exports could be exposed to billions of dollars in retaliation against our leading farm exports. In addition to provisions mentioned above, the Administration is concerned with other provisions including shipping pattern requirements for suppliers of sugar and those relating to extra long staple cotton competitiveness.

The Administration strongly opposes a requirement to devote $450 million in P.L. 480 Title II funding to non-emergency programs without the ability to quickly waive it in an emergency. This provision would result in a $100 million decrease in emergency food aid. The Administration also urges the to House adopt the Administration provision to allow the use of up to 25 percent of P.L. 480 Title II funding for local or regional purchases of food aid; this will provide flexibility in responding to urgent, unanticipated needs.

The Administration strongly opposes provisions in the credit title that expand the Farm Credit System (FCS) outside their traditional markets and other provisions involving Federal loan programs that are inconsistent with Federal credit policy, which would increase the financial risk for potentially billions of dollars of Federal loans and loan guarantees.

The Administration strongly opposes the transfer of the Agricultural Inspection Function from the Department of Homeland Security (DHS) to USDA. Such a transfer of thousands of employees would divert attention from the real mission, delay any efforts to identify needed improvements, and set the program back for another several years while yet another readjustment occurs for both USDA and DHS.

Constitutional Concerns

The Administration notes that several provisions of the bill raise constitutional concerns. For example, certain provisions incorporate classifications and preferences based on race, national origin, or gender that are subject to the rigorous standards applicable to such provisions under the equal protection component of the Due Process Clause of the Fifth Amendment. Unless the legislative record adequately demonstrates that those standards are satisfied, those provisions are objectionable on constitutional grounds. The Administration looks forward to working with Congress to resolve these concerns.

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