Ag. Ac Comp's.

NEWS

UNITED STATES DEPARTMENT OF AGRICULTURE
Office of Communications News Room 460-A
Washington, DC 20250-1300
Internet: News @usda.gov Phone: 202-720-9035
World Wide Web Home Page: http://www.usda.gov

CLINTON ADMINISTRATION'S AGRICULTURAL ACCOMPLISHMENTS

From expanding export opportunities and fighting against concentration in the livestock industry, to increasing conservation assistance and creating innovative risk management tools USDA is working hard to give producers both economic security and opportunity in the years ahead.

FARM SAFETY NET

- Fought against ill-effects of concentration in the meat packing industry by strengthening the ability of the Grain Inspection, Packers and Stockyards Administration to ensure fair competition in the marketplace by restructuring field operations. This should result in more inspections and investigations to combat unfair or anticompetitive practices.

- From January 1995 to the present, 86 decisions and orders have been issued by USDA against 170 individuals and firms for violating the Packers and Stockyards Act. The orders included more than $443,000 in civil penalties and 230 cease and desist provisions for anticompetitive activities.

- Creating a regulation which would ban the purchasing or selling of livestock with the condition that the price not be publicly reported. USDA is also proposing a rule requiring that accurate feed weights be provided to contract growers when those weights are used in determining producer compensation.

- Responded to natural disasters, including blizzards, droughts, flooding, and tornados, with emergency relief and funding, using every available means to provide assistance to producers and other rural residents. Although crop insurance is the first line of defense for most producers, USDA has requested supplemental funding for losses not covered by crop insurance.

- Represented agricultural and rural interests before the Surface Transportation Board (STB) during the past year. USDA opposed mergers that would result in a lower level of service to agriculture, proposed steps that would assure competitive rates for rural shippers, and emphasized to the STB and the rail industry the magnitude of the economic impact that rail car shortages during harvest time have on rural America.

- Faced with an embargo on movement of railcars into Mexico at Laredo, Texas, due in part to Mexican inspection procedures, USDA forged an agreement with Mexico to clear up a 5,000 car backlog, insuring entry of American farmers' grain into that market. Worked with Union Pacific/Southern Pacific officials to ensure timely movement of grain through that rail system.

- Created the National Commission on Small Farms to address the critical needs of small and socially disadvantaged farmers; drafted and supported legislation to repeal the provisions that prohibit farmers who have previously had "debt forgiveness" from receiving any USDA loans or credit assistance, and requested funding in the FY1999 budget for small farm programs.

- Approved the Crop Revenue Coverage program that provides better income protection for farmers. This new insurance plan also provides protection against revenue loss due to low prices, yields, or a combination of the two. USDA also launched an aggressive campaign to increase participation in the crop insurance program and is working to improve awareness of risk management options through a new education program.

- Provided direct operating and farm ownership loans totaling $233 million to 4,247 beginning farmers in FY1997 -- a 20 percent increase over FY1996.

- Provided direct operating loans totaling $65 million to 1,927 socially disadvantaged farmers and direct farm ownership loans totaling $15.5 million to 184 SDA farmers in FY 1997, exceeding the targeted allocation Congress set by 176 percent.

- Initiated new foreclosure and lending policies at USDA in an effort to assure that no one will lose their farm because of discrimination.

- Established a toll-free telephone number for reporting violations and abuses in the livestock, meat, and poultry industries. The number, 1-800-998-3447, provides a free, easily-accessible method for producers to register concerns regarding alleged violations of the Packers and Stockyards Act.

INTERNATIONAL TRADE

- Since the Clinton Administration took office, agriculture exports have risen 50 percent --adding billions of dollars to the incomes of farmers and ranchers.

- Worked successfully to arrange the first commercial shipment of U.S. tomatoes to Japan, the lifting of Egypt's ban on imported poultry, gaining market access for sweet cherries in Mexico, preserving the market for U.S. pet food exports to Switzerland, implementing a project to expedite shipments of live cattle from Montana and Washington to Canada, and working with Chile to re-open its market to U.S. wheat.

MARKETING

- USDA commitment to farmers' markets contributed to visits by close to one million consumers in 1996, resulting in annual sales of approximately $1.1 billion. The number of farmers' markets has increased nearly 40 percent since 1994. Annually, more than $140 million in food stamp and WIC benefits are redeemed at authorized farmers' markets. The Administration also increased the funding of the WIC Farmers Market Nutrition Program by 25 percent in FY 1998.

- Provided $2.8 million to help jump-start new agricultural cooperatives or to improve the operations of existing co-ops, including help to co-ops to develop plans to create and market value-added products from the agricultural commodities their members produce.

- Financed the start-up or expansion of 1,183 rural businesses or cooperatives, creating or preserving more than 53,000 jobs. About $936 million was extended as loans, guaranteed loans or grants to rural business and cooperatives.

FOOD SAFETY SYSTEM FOR THE FUTURE

- The Clinton Administration has implemented a revolutionary food safety program, the first to place the emphasis on preventing contamination, instead of catching it after it occurs. The Hazard Analysis and Critical Control Point (HACCP) program will help protect the food supply and give consumers even more confidence in the safety of our food.

CONSERVATION

- Made the Conservation Reserve Program (CRP) more environmentally sensitive and sound. Enrolled nearly 23 million acres of America's most environmentally sensitive lands for protection in the CRP, freeing up millions of acres of cropland to be put back into production. Started the Conservation Reserve Enhancement Program (CREP) using state and federal resources to help solve environmental problems. This program provides a framework for USDA to work in partnership with states and local interests to meet state-specific environmental objectives. CREP proposals have already been approved in Maryland, Minnesota and Illinois.

- Provided $200 million through the Environmental Quality Improvement Program (EQIP) to help farmers produce crops and livestock in a more sustainable way. Provided $30 million in FY 1998 through the new Wildlife Habitat Incentives Program (WHIP) to help landowners develop and restore wildlife habitat.

- Started the new National Conservation Buffer Initiative with the goal of helping landowners install 2 million miles of conservation buffers by the year 2002.

- Cumulative enrollment in the Wetlands Reserve Program will reach 661,000 acres by the end of FY 1998. The program provides for restoration and protection of wetlands and associated buffer lands under permanent easements, 30-year easements, or 10-year cost-share agreements.

- USDA gave nearly $17 million to 18 states under the Farmland Protection Program to help keep about 80,000 acreas of productive farmland in use. FPP protects between 170,000 and 340,000 acres of farmland from urban development by joining with tribal, state or local governments to acquire conservation easements or other interests from landowners. In FY 1998, an additional $18 million will be allocated to this program.

RESEARCH

- USDA is committed to supporting research that will allow farmers and ranchers to stay competitive in the global agricultural economy. This includes new technology, new products and new uses for existing crops.

- USDA scientists created a product that was recently approved by the Food and Drug Administration called PREEMPT. This product can help poultry producers reduce salmonella contamination in chickens and offers consumers a better and safer product.

- USDA scientists developed a new technology that modifies the traditional corn plant. When used as feed for pigs and chickens, the amount of phosphorus in the animals' waste is cut in half. Excess phosphorus on manure is a serious pollutant in bodies of water across the country.

- USDA work resulted in fifty-nine new varieties and 89 new germ plasm lines of agricultural and horticultural crops being released for use by farmers, ranchers, and home gardeners.

#

BRIEF

Department of Agriculture
Ideas for the President's State of the Union Address

Safety Net

Depressed export markets and natural disasters have placed many of our farmers in the worst financial straits since the farm crisis of the mid-1980's. Agricultural exports for this fiscal year are projected at $52 billion, down from our $57 billion in 1997. And market prices for some key commodities are at or below levels of the mid-1980's. Significant temporary relief was provided by the nearly $6 billion in assistance in the 1999 Emergency Supplemental Appropriations enacted last October. Without this assistance, farm income for 1998 is projected to decline by nearly $8 billion from 1997 and over $11 billion for 1996. Longer term opportunities for market expansion will be aided by the funding of IMF and by future trade negotiations. But as this current experience shows we have to do more to provide a safety net for hard times. No farmer who has made wise, prudent decisions should lose their family land to an act of god. We need to provide farmers the risk management tools including crop insurance they need in order to survive and prosper even in bad economic times. The links between natural resources conservation and the safety net should be strengthened. We need to continue to enforce our existing trade agreements and move forward with new ones.

The 2000 budget provides for a substantial reform measures in the crop insurance program, so that producers will have more incentive to participate, particularly at coverage levels that will protect them against losses below their costs of production. The reform measures include a boost in premium free catastrophic protection, additional subsidy for farmer purchases of higher levels of insurance coverage, and a continuation of the multi-year disaster coverage that was initiated in the Emergency Supplemental Appropriations as well as comparable non-insured assistance payments for producers of crops for which insurance is not offered. We also need to work on elimination of gaps in the emergency loan program, conduct a general overhaul of program procedures to make them more user friendly and to encourage greater efforts by private insurance companies to develop new products.

Small Family Farms

In the last 20 years the number of farms has fallen from 2.3 million to

2.0 million. Average farm size has increased and markets have consolidated. Farms with gross sales less than $250,000 account for 95 percent of all farms but account for only 41 percent of gross receipts. But the importance of these farms to agriculture and rural economies is far greater than their share of gross receipts. These farms provide for diversity in ownership, cropping patterns, markets, culture, and tradition.

This Administration is committed to promoting agriculture and family farms. Secretary Glickman appointed the National Commission on Small Farms in July, 1997. The report of the Commission, A Time to Act, was completed January 22, 1998, and included 146 recommendations to improve USDA services to small and beginning farmers. As Secretary Glickman said when the report was released, "This Administration will not stand by and watch hard working family farmers relegated to a footnote in a history book. From promoting farmers markets to fighting concentration in the marketplace, USDA is committed to helping small farms not only survive, but thrive"

USDA recently announced plans to create a Council on Small Farms and a new office at USDA that will deal specifically with small farm issues. The Department has worked with Congress to increase funding for operating and ownership loans and relax restrictions on lending to borrowers with restructured debt. With limited financial reserves and marketing options, small farms are particularly vulnerable to adverse weather and market conditions. The funding authorized for disaster assistance will allow many small farmers to plan for spring planting rather than spring auctions. Changes in crop insurance will help strengthen the safety net for many small farmers. The Department has moved quickly to strengthen its market enforcement capacity and will work within existing authorities to achieve the purposes of the small farm research initiative proposed for fiscal year.

The Commission on Small Farms has commended the Department "for embracing the substance of the report, A Time to Act, for moving swiftly toward implementation of the Commission's recommendations, and for sending a clear signal to America's small farmers of their importance."

Food Safety Initiative

With the bipartisan support for the Food Safety Initiative, we made great progress on improving the safety of the food supply. Consumers require and deserve a food safety strategy that ensures safety from the farm to the table, but also provides for the most effective use of Federal resources. Now we must strengthen the partnership between Federal, State, and local agencies; continue enhancing surveillance for foodborne diseases and put greater emphasis on the control of foodborne hazards in the pre-harvest phase of the farm-to-table continuum. Only through continued investment can we realize the goal of reducing foodborne illness and ensure consumers have the safest food supply possible. (See attached paper.)

Child Nutrition and Education

A good education and good child care require good nutrition. The Government helps to pay for 26 million nutritious school lunches a day, 13 million provided free to poor kids, and almost 3 million meals a day in child care. However, the schools and child care providers have repeatedly petitioned Congress for a simplified support system. They want to focus more attention on nutritious meals for kids, and less on the almost inevitable paperwork. And now, I am proposing to do just that. Let's consolidate all the different Child Nutrition Programs so we have just two: one for schools, and one for community based child care. The paperwork requirements would be simplified; nutrition requirements and funding levels would be the same. And nutrition education would be an integral part of both meals and curriculum, tailored to every age group. Ultimately this investment pays off, since child care, schools, and nutrition are essential building blocks of a productive society. We need to provide our children the education and skills they will need. And face it, America needs to foster quality child care, improved schools, and quality after school programs so that parents who need to can work without worry.

Welfare to Work - Food Stamp Program

Welfare reform is working, but we can do better. We can increase work incentives. Specifically, we can improve the food stamp program to allow households to keep the car they need to get to a job, to keep more of the income they earn without losing food stamps, and to increase their sophistication to use food resources wisely.

Research and Education

The Agricultural Research, Extension, and Education Reform Act of 1998 was signed by the President on June 23, 1998. At that time the President spoke of the need for "vital investments" in food and agriculture genome research, food safety and technology, human nutrition, and agricultural biotechnology. The Department's pending budget proposal for research, development, and education proposes to reverse the 13 percent decline in support for these programs in inflation-adjusted dollars since 1992. Moreover, these programs are critical elements in a wide range of Administration priorities that deal with the environment, health, and food safety in addition to the major challenges American farmers face to maintain their competitive advantage in world markets.

Food Quality Protection Act

The pending budget includes funds to respond to the new pesticide risk assessment requirements imposed by the Food Quality Protection Act of 1996 consistent with principles for implementation identified by the Vice President in April 1998: 1) regulatory decisions should be based on the best scientific evidence available, 2) the decision making process should be transparent, 3) there should be reasonable transition periods for producers who will have to make changes in production practices, and 4) USDA and EPA should collaborate and consult with groups representing the interested parties. USDA's role consists primarily of discovery and adoption of new pest control practices and collection and analysis of data needed to conduct the tolerance reassessment process.

Natural Resources Agenda

With 80 percent of the Nation's fresh water sources originating on the national forests, these public lands are in a very real sense the headwaters of America. That is why protecting our healthiest watersheds and restoring those that are degraded heads our Natural Resources Agenda for the Twenty-First Century. We must also foster sustainable forest ecosystem management, improve the availability and quality of outdoor recreation and follow a road policy that meets the needs of Americans and protects the environment. In other words, we must do more to sustain and restore the fabric of the whole landscape. To carry out this agenda, the budget proposes a 27 percent increase in watershed improvements, a 16 percent increase in recreation, and we are putting into effect an 18 month moratorium on the construction of new roads in the currently un-roaded areas of most national forests while we revamp the management of our national forest road system.

Natural Resources Conservation Service (NRCS) -- Clean Water Action Plan

We need to continue on the President's Clean Water and Watershed Restoration Initiative. The 2000 budget should include funding for NRCS to support the recently published Clean Water Action Plan (CWAP) which emphasizes a locally led, voluntary approach to preventing pollution from agriculture. A key aspect of the CWAP deals with implementing a unified national strategy to reduce the environmental and public health impacts of Animal Feeding Operations (AFO's). NRCS technical and financial assistance will be critical in ensuring that the voluntary component of the National AFO strategy is successfully implemented. The budget proposes to address this critical workload through increases in the Conservation Technical Assistance Program and the Watershed and Flood Prevention Program and through the ongoing Environmental Quality Incentives Program.

Also, included in the CWAP, the Administration wants to achieve a net increase in the number of acres of wetlands and proposes to accomplish this primarily through enrollment in the Wetlands Reserve Program (WRP). Current budget projections indicate that WRP will reach its 975,000 acre statutory enrollment limitation in 2000. The budget request extends the annual WRP enrollment by 50,000 acres which will help meet the Administration's clean water goals and ensure a net gain in restored wetlands.

Rural Development -- Distance Learning and Telemedicine

This Administration believes that the information superhighway is crucial to rural development and recognizes that the Federal Government, in partnership with the private sector, has an important role to play in ensuring that rural Americans have full access to those resources.

In the last 4 years of the Distance Learning Program and Telemedicine Program, approximately 704 rural schools and education center schools and 500 rural medical facilities have been linked to (schools:) libraries, training centers, vocational schools, and (rural medical centers:) urban medical centers for clinical interactive video consultation, distance training, access to medical expertise, and management and transport of patient information.

These achievements have made primarily through the awarding of highly competitive grants, for which the 2000 budget provides $15 million. In order to accelerate the program, the Administration has been working to establish a loan program to complement these grants. To date only a few such loans have been made, but now that the program is in place, the level of loans provided is expected to increase to $150 million in 1999 and the 2000 budget provides for the continuation of the program at that level. Accordingly, the number of schools receiving distance learning facilities is expected to be increase by 450 percent, while the number of health care providers receiving such assistance is expected to be increased by over 1600 percent.

Water 2000

2.4 million people in rural America do not have access to safe drinking water and 800,000 have no running water whatsoever. Through the President's Water 2000 Initiative, USDA is continuing its progress in providing safe, affordable water to rural households.

The program is funded in 1999 and will continue to be funded under the 2000 budget at a level which, each year, will provide safe, affordable drinking water to about 500,000 rural residents who previously did not have such service. Including those served by systems that will be improved, the program will serve, each year, about 800,000 rural residents through water systems and about 400,000 rural residents with waste disposal systems.

UNITED STATES DEPARTMENT OF AGRICULTURE
FY 2000 Budget Request
President's Food Safety Initiative
(Dollars in Thousands)

	1998 Appropriated	1999 Budget	1999 Omnibus Bill a/	2000 Budget
Department of Agriculture:				
Food Safety and Inspection Service	$1,065	$11,347	$16,467	$3,036
Agricultural Research Service	5,202	13,970	12,370	10,100
Cooperative State Research, Education, and Extension Service	2,531	11,000	16,000	2,635
Foreign Agricultural Service	0	0	0	1,000
National Agricultural Statistics Service	0	0	0	2,500
Office of the Chief Economist	9	98	98	0
Economic Research Service	0	906	453	0
Food and Nutrition Service	0	2,000	2,000	0
Agricultural Marketing Service	0	6,257	2,831	0
Total, Food Safety Initiative	8,807	45,578	50,219	19,271

a/ The conference report accompanying the 1999 Omnibus Appropriations Act (the Act) identified the amount of funding made available in the Act for the President's Food Safety Initiative. USDA is currently evaluating the Act to determine the final allocation of funds for the President's Food Safety Initiative.

UNITED STATES DEPARTMENT OF AGRICULTURE
FY 2000 Budget Request
President's Food Safety Initiative

Background:

- For the third consecutive year, the Department of Heath and Human Services (HHS) and the Department of Agriculture (USDA) have coordinated a multi-agency effort to improve the safety of the Nation's food supply. This cooperative approach maximizes the use of Federal resources to achieve the greatest improvements in food safety.

- The May 1997 report to the President, entitled Food Safety from Farm-to-Table: A National Food Safety Initiative, recognized foodborne illness as an emerging public health hazard that required aggressive Government action.

- The May 1997 report proposed a farm-to-table food safety strategy for addressing critical gaps in the food safety system for controlling or eliminating foodborne pathogens from the food supply and proposed a strategy for closing those gaps. This strategy has been the basis for the President's Food Safety Initiative for 1998 and 1999.

1998 and 1999 Budgets:

- The 1998 and 1999 budgets included additional funding to address the need for critical new investment in the food safety system as identified in the May 1997 report.

- The 1998 appropriation provided USDA an increase of $8.8 million to enhance surveillance of foodborne disease outbreaks and better coordinate our response to outbreaks; to target important new research and risk assessment to build a scientific base for the food safety system; to expand food safety education activities; and to provide training to State and local public health officials.

- The 1999 President's budget request included an increase of $45.6 million for USDA. The Omnibus Appropriations Act for 1999 provides USDA $50.2 million for the initiative.

- For 1999, USDA will build on gains made in 1998, and places increased emphasis on ensuring the safety of domestic and imported fresh produce; targets food safety education; transforms meat and poultry inspection to Hazard Analysis and Critical Control Point (HACCP) systems; and develops scientific information and tools to control a greater range of food safety hazards. These activities have laid the foundation for building a strong, scientific base for a farm-to-table food safety system that addresses a broad range of food safety hazards.

2000 Budget Request for USDA:

- For 2000, USDA and HHS are proposing an increase of $86.2 million above the 1999 President's budget request for the President's Food Safety Initiative. Of this amount, $19.3 million is allocated to USDA and $66.9 million to HHS.

For USDA, the 2000 budget includes increases above the 1999 President's budget request for the following activities:

- $3.0 million for the Food Safety and Inspection Service to: strengthen Federal-State partnerships that will facilitate the interstate shipment of State inspected meat and poultry products; conduct dose-response studies needed for quantitative risk assessments; improve the agency's response to outbreaks of foodborne illness; and maintain consumer education programs.

- $10.1 million for the Agricultural Research Service to: extend risk assessment modeling to include the production or pre-harvest phase; expand research in antimicrobial resistance for the development of new pathogen prevention/intervention technologies; initiate research that will lead to a better understanding of how the use of antibiotics in food-producing animals increases the risk of emergence of micro-organisms that are resistant to specific antibiotics; develop effective methods to handle and treat manure during production to prevent transmission of pathogens to agricultural lands and to crops used for human food; and develop enhanced food safety procedures for use during food handling, distribution and storage.

- $2.6 million for the Cooperative State Research, Education, and Extension Service to support food safety activities that will improve: detection methods for the most prevalent pathogens; the effectiveness of best management practices interventions in the production setting related to control of antibiotic usage in food; and the integration of research and education in food safety through technology transfer and through the development of educational programs that focus on the adoption of recommended food handling practices consistent with the research findings.

- $1.0 million for the Foreign Agricultural Service to facilitate visits of U.S. investigators and scientists to visit foreign operations to ascertain the source of problems that may pose a safety hazard in produce imported into the U.S. In addition, FAS will facilitate the development of international research, education and training programs.

- $2.5 million for the National Agricultural Statistics Service to conduct a survey of fruit and vegetable growers and packinghouse handling practices with regard to food safety. Survey data reported by producers would inform domestic and international data users on U.S. grower food safety practices.

Ag. EW

Bruce N. Reed
12/11/97 10:07:06 AM

Record Type: Record

To: Mary L. Smith/OPD/EOP

cc: Elena Kagan/OPD/EOP, Thomas L. Freedman/OPD/EOP
Subject: Re: Ag Issues

Sounds good. Why don't you keep working with them to see if we can come up with something on the crop insurance front. I know nothing about this issue, so I can't gauge whether it's worthwhile or not.

Tom -
Where are we on this?
Elena

Kate P. Donovan
09/23/98 08:40:07 PM

Ag. Approps.

Record Type: Record

To: See the distribution list at the bottom of this message

cc: See the distribution list at the bottom of this message
Subject: Need clearance: Agriculture Approps. conferees letter

Below is the conferees letter for the Agriculture FY99 Appropriations bill. Conference action is expected Friday (9/25); therefore, we aim to get the letter out midday tomorrow (Thurs, 9/24). Please note that the veto position is open for discussion pending further consultation. Please provide your comments/clearance by noon tomorrow. Thank you.

The Honorable Bob Livingston
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This letter provides the Administration's views on H.R. 4101, the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, FY 1999, as passed by the House and by the Senate. As the conferees develop a final version of the bill, your consideration of the Administration's views would be appreciated.

The Administration welcomes congressional efforts to accommodate the President's priorities within the 302(b) allocation. The President's FY 1999 Budget proposes levels of discretionary spending for FY 1999 that conform to the Bipartisan Budget Agreement by providing savings through user fees and certain mandatory programs to help finance discretionary spending. In the Transportation Equity Act, Congress -- on a broad, bipartisan basis -- took similar action in approving funding for surface transportation programs paid for with mandatory offsets. In addition, this year, as in the past, such mandatory offsets have been approved by the House and Senate in other appropriations bills. We want to work with the Congress on mutually-agreeable mandatory and other offsets that could be used to increase high-priority discretionary programs in this bill. In addition, we urge the Congress to consider again the user fee proposals included in the President's budget, either adopting or modifying them to enable more resources to be directed to important initiatives such as those proposed for food safety, nutrition programs, rural development, agriculture research, and conservation.

The Administration's specific concerns with the bill as passed by the House and the Senate are discussed below. We look forward to working with you to resolve these concerns.

Food and Drug Administration

The Administration strongly opposes the House-passed provision that would prohibit FDA from using funds for the testing, development, or approval of any drug for the chemical inducement of abortion. The determination of safety and effectiveness is the cornerstone of the consumer protection established by the Federal Food, Drug, and Cosmetic Act and must continue to be based on the scientific evidence available to FDA. Prohibiting FDA from reviewing applications for particular products could deprive patients of new therapies that are safer and more effective than those currently approved. Additionally, this provision could conceivably put women at risk because it might allow clinical trials of such drugs to proceed without FDA supervision. **If the bill were presented to the President with this House provision, his senior advisors would recommend that he veto it.**

In addition, the Administration strongly urges Congress to provide the full $1,251 million in resources to fund the program level proposed for the Food and Drug Administration (FDA) in the President's budget. The Administration is deeply disappointed and concerned that neither the House nor the Senate has funded the President's request for FDA's tobacco enforcement activities. This funding is vital to the Administration's plan to reduce youth smoking. Failure thus far to pass comprehensive tobacco legislation should not prevent the Congress from providing adequate resources for these critical public health activities.

Food Safety Initiative

The Administration is deeply concerned that neither the House nor the Senate has fully funded the President's request for Food And Drug Administration (FDA) and USDA activities to enhance food safety, providing only $16.8 million and $68.9 million, respectively, of the $96 million the President has requested for these activities. American consumers enjoy the world's safest food supply, but too many Americans get sick, and in some cases die, from preventable food-borne diseases. The President's initiative would expand food safety research, risk assessment capabilities, education, surveillance activities, and food import inspections. The Administration will work with Congress to explore options to offset the additional cost needed to fully fund the President's request.

Disaster Assistance

It is of critical importance that the Federal Government provide emergency funds to farmers facing the worst agricultural crisis in a decade. On September 22nd, the Administration submitted its request for $2.3 billion in emergency assistance, including supplemental crop insurance indemnity payments, additional farm operating loans, and other vitally important programs. Although this request did not include income assistance to farmers for low commodity prices, Secretary Glickman communicated the Administration's support for such assistance through Senators Daschle and Harkin's proposal to remove the cap on marketing loan rates for 1998 crops. The Administration urges the Congress to provide assistance to address this urgent crisis.

Women, Infants, and Children

The President requested a funding increase in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), to reflect inflation adjustments and projected increases in participation. Based on new data indicating declining food package costs and stable WIC participation, it now appears that the Senate or lower House funding level will be sufficient to support the revised 7.4 million year-end participation level going into FY 1999. We commend the House and Senate for their hard work on this issue and if the conferees approve the House level, we urge that the additional resources in the Senate bill be reallocated to priorities detailed in this letter.

Civil Rights

The President is personally committed to righting any wrongs committed by USDA employees in years past. Therefore, the Administration strongly supports the provision passed in both the House and the Senate that waives the statute of limitations for individuals who have previously filed a discrimination claim against USDA. The Administration prefers the Senate version because it applies to both USDA farm and housing loans.

However, in a number of areas, the House and Senate have reduced funds to assist the most needy farmers and residents of rural communities. Neither the House nor the Senate has provided the requested increase for the Outreach for Socially Disadvantaged Farmers program, which was a key recommendation of the USDA Civil Rights Action Team (CRAT) report last year. With the additional $7 million requested, USDA could support 35 projects to assist 10,000 small family farms and stem the decline in the number of minority farmers and ranchers. We urge the conferees to provide the full request.

The CRAT report also recommended increasing the amount of farm ownership loans, a portion of which are targeted to minority and beginning farmers. The Administration urges the conferees to provide an additional $3 million requested for this program by the President, which would permit another 290 limited-resource farmers to finance real estate purchases.

Rural Development Funding

The Administration strongly objects to the provision in both bills that blocks FY 1999 spending in the mandatory Fund for Rural America. The Fund provides additional resources for rural development and innovative agricultural research that are vitally needed to improve the quality of life in rural America and increase the productivity of U.S. farmers. Congress created the Fund in 1996 to boost the overall Federal investment in these activities, not as a source of savings to offset discretionary spending. Moreover, Congress recently extended the authority for the Fund and increased its resources. The Administration urges the conferees to strike this provision.

In addition, the Senate bill does not fully fund the President's request for the Rural Community Advancement Program (RCAP) , under-funding direct loans for water and wastewater and for community facilities. These loans provide the community infrastructure to improve the quality of life of rural Americans, and they often finance the vital ingredient for diversifying the rural economy. The Senate bill would fund 35 fewer water and wastewater facilities, serving 50,000 rural residents, as well as fewer rural health clinics, police and fire stations, and health care facilities than the President's request. We urge the conferees to adopt the House position, but to strike the House language that would limit the flexibility of USDA to transfer funds among programs, in order to allow the program to operate as intended and permit resources to be tailored to meet unique local needs.

Agriculture Research

Both the House and Senate have included over $50 million in unrequested earmarks for low-priority research while funding competitive grants through the National Research Initiative (NRI) at $30 million and $35 million, respectively, below the President's request. Rejecting additional funds for competitive research grants for national and regional priorities in favor of earmarked grants for local interests fails to support the highest priority needs of American agriculture and consumers, and the Administration urges the conferees to reverse this policy. We also believe that the conferees should reduce the unrequested increases in the Agricultural Research Service's buildings and facilities program and redirect these resources to higher priority programs.

The Administration strongly objects to the House's elimination of the $120 million in competitively-awarded research funds authorized in the Agricultural Research, Extension and Education Reform Act of 1998. These funds would finance vital investments in food and agricultural genome research, food safety and technology, human nutrition, and agricultural biotechnology. We urge the conferees to support these important research efforts by restoring funds to the level requested.

Climate Change and Clean Water Initiatives and Conservation Programs

Neither the House nor the Senate has provided the $7 million increase requested for research to support the Administration's Climate Change Technology Initiative. These funds would support high-priority research to reduce greenhouse gas emissions caused by agricultural practices, develop improved feedstocks that can generate energy, and improve techniques to convert agricultural products to biofuels. The Administration urges the conferees to restore funding to the requested level.

In addition, neither the House nor the Senate has included the Administration's requested increase of $23 million for the Natural Resources Conservation Service (NRCS) to implement the President's Clean Water Action Plan to help State and local organizations hire watershed coordinators, document baseline conditions, and target resources to farmers requesting assistance. The Plan, developed by USDA and EPA, outlines a strategy on how to correct water quality problems, including polluted run-off, across the Nation. The Administration urges the conferees to provide these necessary funds to the NRCS.

The Administration strongly opposes House and Senate actions reducing or eliminating funding for several key mandatory USDA conservation programs, including the Environmental Quality Incentives Program, Wetlands Reserve Program, Wildlife Habitat Incentives Program, and Conservation Farm Option. These programs are essential for enhanced water quality, wildlife habitat, and soil conservation on American farms and throughout rural America and should be adequately funded.

Language Provisions

The Administration strongly objects to the House provision that would provide funding for research on nutrition programs within the Economic Research Service. Research on nutrition programs should occur in the context of the program's administration, and the Administration urges the conferees to provide funding for these activities within the Food and Nutrition Service, as requested and as included in the Senate bill.

The Senate bill purports to prohibit USDA personnel from preparing or submitting appropriations language regarding unenacted user fees unless the budget also identifies additional spending reductions should the user fees proposals not be enacted by an identified time. The Justice Department advises that this provision would violate the Recommendations Clause of the Constitution under which Congress can neither require nor prohibit that the President make legislative or policy recommendations to Congress. Because the funding restriction would undermine the President's ability to fulfill his constitutional duty under the Recommendations Clause, it would be unconstitutional.

The Administration objects to the provision in the House and Senate versions of the bill that would limit Executive Branch review of USDA responses to congressional inquiries. The Administration urges the conferees to delete these provisions.

The Administration objects to a Senate provision that would prohibit the FDA from consolidating laboratory operations. The proposed consolidation offers the opportunity for better efficiency and mission coordination, and it is part of FDA's overall streamlining goals. The Senate provision would force FDA to spend funds on infrastructure that could otherwise be used more directly to protect public health. The Administration urges the conferees to drop this provision.

The Administration objects to section 741 of the House-passed bill that would allow Federally tax-exempt financing in conjunction with rural multi-family housing guarantees. Guarantees of tax-exempt obligations are an inefficient way of allocating Federal credit. Assistance to borrowers, through the tax exemption and the guarantee, provides interest savings to the borrower that are smaller than the tax revenue loss to the Government, and the cost to the taxpayer is, therefore, greater than the benefit to the borrower.

The Administration objects to the addition of Title XI to the Senate bill, would amend the alternative-fuel provisions of the Energy Policy Act of 1992. The amendment makes numerous changes to definitions and compliance credits, with the nominal intent of increasing demand for "biodiesel" -- a fuel derived from oil seeds such as rapeseed. The real effect, however, would be to gut most of the existing alternative-fuel requirements and policies. The amendment creates loopholes that would allow Federal agencies and other fleet operators to ignore, effectively, most alternative fuels, such as ethanol, natural gas, and electric vehicles. These loopholes would be easier for Federal agencies to exploit than for many private or State fleets. If the Energy Policy Act is to be amended, such action should be pursued through the energy authorization committees.

Other Issues

The Administration urges the conferees to provide additional funds for the farm labor housing program to improve the living conditions of many farm labor families. The House and Senate levels, $20 million and $16 million, respectively, are more than 35 percent below the Administration's request and would result in at least 230 fewer housing units being built compared with the request. The Administration urges the conferees to increase funding to assist these needy members of our society.

The House reduces by $10 million and the Senate by $20 million the President's request for the mandatory Emergency Food Assistance Program (TEFAP), which purchases commodities for individuals greatly in need of assistance. Given reported increases in need for food assistance through food banks and soup kitchens, the Administration is concerned that this reduction from the authorized level would mean less food will reach the most vulnerable Americans. In addition, food rescue and gleaning is a priority area that deserves additional funding in the USDA budget. The budget proposes $20 million for this initiative to encourage greater private sector and community based involvement in food rescue.

Under the 1996 Food Quality and Protection Act, USDA has added responsibilities to assist EPA with its re-registrations of pesticides and to develop new technologies for integrated pest management systems. Both bills fail to provide the requested additional funding to meet these urgent needs and, as a result, re-registrations may be based on incomplete understanding of actual pesticide use and exposure, jeopardizing the continued viability of current crop production patterns.

The House has provided only $2 million of the requested $22 million increase for the Inspector General as part of the Administration's law enforcement initiative, and the Senate has not provided any of the requested funds. The USDA initiative would save taxpayers millions of dollars lost through fraud in the food and nutrition programs as well as in USDA disaster, multi-family housing, and other programs. The initiative would also improve the integrity of many USDA programs. The Administration urges the conferees to increase funds for this important initiative.

We look forward to working with the conferees to address our mutual concerns.

Sincerely,

Jacob J. Lew
Director

Identical Letter Sent to The Honorable Bob Livingston,
The Honorable David R. Obey, The Honorable Joseph Skeen,
and The Honorable Marcy Kaptur, The Honorable Ted Stevens,
The Honorable Robert C. Byrd, The Honorable Thad Cochran,
and The Honorable Dale Bumpers

Message Sent To:

Rahm I. Emanuel/WHO/EOP
John Podesta/WHO/EOP
Gene B. Sperling/OPD/EOP
Sally Katzen/OPD/EOP
Elena Kagan/OPD/EOP
Martha Foley/WHO/EOP
Ron Klain/OVP @ OVP
Joshua Gotbaum/OMB/EOP
Lisa M. Kountoupes/WHO/EOP
Kathleen A. McGinty/CEQ/EOP
Wesley P. Warren/CEQ/EOP
Kerri A. Jones/OSTP/EOP
Jeffrey M. Smith/OSTP/EOP
Todd Stern/WHO/EOP
G. E. DeSeve/OMB/EOP
RUDMAN_M @ A1@CD@VAXGTWY
Michelle Peterson/WHO/EOP
Maria Echaveste/WHO/EOP
Clifford J. Gabriel/OSTP/EOP
Thomas L. Freedman/OPD/EOP

Message Copied To:

Kevin S. Moran/WHO/EOP
Jessica L. Gibson/WHO/EOP
Melissa G. Green/OPD/EOP
Michelle Crisci/WHO/EOP
Laura Emmett/WHO/EOP
Shannon Mason/OPD/EOP
Jonathan H. Adashek/WHO/EOP
Charles Konigsberg/OMB/EOP
Elizabeth Gore/OMB/EOP
Lisa Zweig/OMB/EOP
Charles R. Marr/OPD/EOP
Emil E. Parker/OPD/EOP
Judy Jablow/CEQ/EOP
Paul J. Weinstein Jr./OPD/EOP
Peter A. Weissman/OPD/EOP
Robert L. Nabors/OMB/EOP
Adrienne C. Erbach/OMB/EOP
Victoria A. Wachino/OMB/EOP
Rosemary Evans/OMB/EOP
FARRAR_J @ A1@CD@VAXGTWY

Appropriations

Continued from page 1

publican leaders expect them to support the funding bills.

The first-tier issues include offsetting new spending; opposing any new funding for the International Monetary Fund; linking family planning funding for international groups with IMF and United Nations funding; and a prohibition on national education testing.

The second-tier issues include adoption reform; a ban on needle exchanges; limiting funding for the National Endowment for the Arts; and a prohibition on establishment of a gun registry.

Finally, they are demanding either floor consideration of the House Labor-HHS funding bill or a separate vote on parental notification for federally financed contraceptive services for teens.

Also, **Rep. Cliff Stearns**, R-Fla., is circulating a "Dear Colleague" threatening to vote against any omnibus funding measure that includes the full $18 billion for the IMF.

"We are deeply disturbed with the countless evidence of the malfeasance and mismanagement of IMF," Stearns said in his letter.

Negotiators Tuesday continued to struggle with the contentious issue of IMF reforms.

"I think we're very close to working out a solid agreement with the Senate and the White House," Livingston said after a GOP leadership meeting at which the IMF was discussed.

But **House Majority Leader Armey**, an avid IMF opponent, was not as encouraged. "The direction is fine; the distance is insufficient," he said. "We haven't gone far enough in the right direction."

Meanwhile, **House Appropriations ranking member David Obey**, D-Wis., questioned whether Republicans are ready to engage in the type of intense negotiations that are needed to adjourn.

"If they're hellbent to get out of here this weekend, then they have to negotiate like they're hellbent to get out of here this weekend," Obey told reporters.

GOP leaders must "get rid of their hangups about sex," Obey said in contending that in addition to the president's personal problems, Republicans are plagued by having to resolve birth control, abortion and family planning issues hounding several bills.

He said GOP members must move "beyond the slogan stage" in dealing with the Foreign Operations bill and IMF problems. "There are a huge number of issues that are still on the plate," he said.

Obey acknowledged, however, that some progress has been made, with some deals being discussed in the Labor-HHS funding bill.

He said Democrats expected Republicans to have presented their proposals in several areas late last week, adding that he is still waiting for those proposals.

With the continuing resolution funding government operations due to expire Friday, the 13 annual funding bills are in various stages of the process.

Appropriators expect to bundle the Labor-HHS, Commerce-Justice-State, District of Columbia, Foreign Operations and Interior bills into an omnibus funding package, which also will include a supplemental spending package.

Conferees on the Treasury-Postal and Transportation funding bills are still trying to craft final conference agreements that would allow them to send separate funding bills to the president.

Both chambers have passed the Energy and Water, Agriculture, Defense, Legislative Branch and Military Construction conference reports. However, President Clinton has said he will veto the Agriculture legislation.

The House has passed the VA-HUD conference report; the Senate has not acted on it yet.

—*By David Baumann*

Senate Clears Ag Approps Measure Despite Veto Threat

AGRICULTURE

THE SENATE passed the FY99 Agricultural appropriations bill, 55-43, Tuesday — but White House Deputy Press Secretary Barry Toiv said President Clinton would veto the bill because he finds the farm disaster provisions "totally inadequate."

Senate Minority Leader Daschle noted he has more than enough votes to sustain a veto. Tuesday's vote was largely along party lines, but four Republicans — including **Sens. Conrad Burns** of Montana and **Craig Thomas** of Wyoming — voted against the bill, while three Democrats voted for it.

Daschle said he is willing to compromise on lifting caps on grain marketing loans to get more money to farmers, but wants the aid "targeted" to producers who need it.

Senate Agriculture ranking member Tom Harkin, D-Iowa, told reporters after the vote that increasing Freedom to Farm payments will "waste a lot of money" and urged lifting the caps.

Daschle also said he hopes to revive Senate-passed provisions dropped in conference to require labeling of meat by country of origin and mandatory reporting of cattle and sheep prices.

Those statements by Daschle raised the ire of **Senate Agriculture Appropriations Chairman Thad Cochran**, R-Miss., who noted that Agriculture Secretary Glickman and the OMB had raised concerns about both livestock proposals.

And **Speaker Gingrich** released a statement Tuesday evening, saying of the veto threat: "I am saddened to hear that the president intends to put politics ahead of America's farmers. ... Instead of aiding them, the president has signaled he will choose partisanship over people and conflict over compromise."

— *By Jerry Hagstrom*

Ag. Agenda

Flying pigs

military

Agenda
1/11/99

pork prices

1. Pork

loan programs

- Loan program (direct and/or guaranteed; general or pork specific)
- Other help with bankers
- Use Mexican slaughter houses
- Live pigs to Mexico — Live Eric
- Canadian boarder crossings → ERIC
- Technical assistance to North Carolina re water permits
- Analysis of concentration at various stages of production

Treasury — Mark

cluster

(1) Mandatory price reporting

(2) real time reporting

2. Farm Issues Generally

Agriculture — Lucl

Contracts (coops)

spec(Ani) → 2/24

- Crop Insurance
- Alternative vision - 95' Plan?
- Regional conference(s)

freedom to farm

3. Rural Issues Generally

— plant closing

OMB

budget chapter

May '95 plan

number of congress

speak about

digital

living

edu.

water

Educational Campaign.

Hardware program

School leaders

[illegible]

THE WHITE HOUSE

WASHINGTON

NEC Agriculture Principals Meeting

Roosevelt Room; 3:30pm

March 19, 1999

AGENDA

I. The Farm Economy

- Description of Current Status of Farm Economy (*Secretary Glickman*)
- Historical Perspective of Farm Economy and Agricultural Economic Indicators (*Dr. Yellen*)

II. Discussion of Proposals to Address Farm Economy

- Crop Insurance Reform
- Livestock Loss Assistance
- Farm Income Protection
- Others

III. The Budget

- Budgetary Implications of Proposals

$15.8 bill. → direct payment

Loan deficiency payments

1. ↑ harvests

2. Asian Crisis

3. China/Russia

- exports below $50 bill
- hogs ↓ price

highest ever — - dairy 37% drop last month

End of dairy program

livestock

Lost 40% of farmers

fresh farming

February 25, 1999

The Outlook for the Farm Economy

The Department of Agriculture (USDA) forecasts a much weaker agricultural economy over the immediate to medium term than it did one year ago. While prices, exports, and income will gradually recover, the outlook for this year and next, particularly, is especially bearish.

Released February 22, 1999, at its annual Outlook Conference, *USDA's Agricultural Baseline Projections to 2008* – the most recent version of the annual 10 year projection USDA releases – depicts a dramatic reversal from the conditions USDA foresaw just one year ago. According to these estimates, farm income will fall \$8 to \$9 billion from the 1998 estimates, dragged down by lower domestic prices and exports USDA now projects will be \$15 billion lower over the next 10 years than the level estimated on year ago.

While the overall US economy is doing very well, the farm economy is struggling and will likely continue to struggle in the coming months. In 1998, bad weather from California to Florida, very large global grain and soybean harvests, and the Asian slowdown combined to reduce farm exports and commodity prices. Nearly \$6 billion in economic and disaster relief enacted last fall is helping many farmers through the leaner times. Exports and prices will be low in 1999 and farm financial pressure is likely to escalate.

This paper summarizes USDA's outlook for farm finances, the commodity markets, and the outlook for crops and for livestock. Attached to it are excerpts from USDA's current baseline projections and the most recent agricultural export outlook.

FARM FINANCIAL CONDITIONS

After strong economic performance in 1996 and 1997, critical sectors of the farm economy are undergoing the most severe financial stress of the decade. There are two fundamental causes for this weakness: First, farmers and ranchers in many areas suffered crop production losses due to disease, drought, pests, flooding, and excessive moisture in 1998. Except for cotton, these crop losses did not offset production increases elsewhere. Second, large US crop and livestock production and lower demand for US agricultural exports due to large global production, the Asian and Russian economic crises, and a strengthening US dollar caused agricultural commodity prices and incomes to plunge and will likely continue to pressure prices during 1999. US agricultural exports reached a record high of \$60 billion in 1996; this year, USDA projects exports of only \$49 billion.

Aggregate indicators of the agricultural economy portray a sector with problems in some areas, but generally performing adequately entering 1999, primarily because of higher government payments. Net cash farm income, while falling slightly in 1998, was still near the record high set in 1997 even though government payments to producers increased from \$7.5 billion in 1997 to nearly \$13 billion in 1998. The debt-to-asset ratio of farmers remained at about 15 percent in 1998, compared with over 20 percent during the farm financial crisis of the mid-1980s. Stable interest rates, low oil prices, and low inflation are helping to contain production expenses.

Rising crop surpluses, continued low prices, and declining incomes will contribute to increasing farm financial stress in 1999. Farm income which is projected to decline in 1999, coupled with little or no increase in farm asset values, means farmers will have more trouble getting credit and those who do will use up a greater portion of their income servicing debt. Farmers who struggled with cash flow in 1998 resulting from low prices and adverse weather will see their problems worsen in 1999.

Continued low hog, cattle, and field crop prices will place additional financial pressures on farmers who specialize in the production of these commodities and are already highly leveraged. Hog prices could continue to remain below break-even levels for most farmers for much of 1999, and cattle prices, which have been low for quite some time, may still not be strong enough to return a profit for some producers. For principal crops, net income could fall sharply. For the crops to be harvested in 1999, net income from wheat, corn, soybean, upland cotton and rice production could drop to $17 billion, compared with over $19 billion in the 1998 crop year and the average of $22.7 billion for the previous 5 years.

COMMODITY MARKETS

The following table shows USDA's official season-average price estimates for the current crop year compared with other years of the 1990s:

Commodity	1990/91-97/98 Average	1998/99 Forecast	Percent Change
Wheat ($/bu)	3.47	2.70	-22
Corn ($/bu)	2.48	1.95	-21
Soybeans ($/bu)	6.16	5.20	-16
Cotton (cents/lb.)	64.7	64.2*	-1
Rice ($/cwt)	7.97	8.50	+7
Fed cattle ($/cwt)	70.2	65.5	-7
Hogs ($/cwt)	45.2	34.0	-25
Broilers (cents/lb)	56.4	59.0	+5
Milk ($/cwt)	13.5	14.4	+7

(Note: Livestock, broiler and milk prices are for calendar years 1991-98, and 1999.)
*Year to date; current prices are below 60 cents per pound.

CROPS

This season, large stocks, a large winter wheat crop, and strong foreign competition are pressuring wheat prices. Wheat farmers have reacted to the drop in wheat prices by reducing winter wheat planted acreage to the lowest level in 27 years. The drop in plantings should foster some recovery in wheat prices next season, which begins June 1. However, substantial recovery in wheat prices is unlikely since US wheat stocks at the end of the current season are projected to be the highest in more than a decade.

Corn and soybean prices also dropped sharply during the 1998/99 season, which ends on August 31 for both crops. The prices of both crops are being pressured by large South American production and weak exports. US carryover levels at the end of the 1998/99 season are projected to be the highest in 6 years for corn and the highest in 12 years for soybeans. These high carryover levels will likely prevent much recovery in corn and soybean prices in the months ahead.

Despite a 25-percent reduction in US cotton production due to weather problems in California, Texas, and the Southeast, cotton prices are down nearly 20 percent since early November. Strong foreign cotton competition and from imported textiles and apparel, declining foreign demand have contributed to lower exports, domestic use, and prices.

In 1998/99, US rice production was the second largest crop on record. All States produced larger rice crops in 1998, except California because of adverse weather there in 1998. Somewhat larger US supplies and increased foreign competition are placing pressure on rice prices this season. USDA projects that rice prices will average 14 percent lower this season, compared with 1 year ago, but above the average of the 1990s.

LIVESTOCK, POULTRY, AND MILK

Record-large per capita meat and poultry supplies and reduced exports to Asian countries depressed livestock prices in 1998. In 1999, meat and poultry supplies will again be record large and continue to pressure livestock prices. The drop in hog prices was especially severe in 1998, with the farm price falling 65 percent in December, compared to the same month a year earlier, as hog production reached slaughter capacity. Reflecting strong returns in 1996 and 1997, hog farmers expanded production which was up 10 percent in 1998. Hog supplies will remain high through the first half of 1999 and for the year, USDA expects hog prices to average 25 percent below the average of the 1990s.

Cattle prices had been expected to strengthen in 1998, following 2 years of herd liquidation. However, low cattle prices and drought in Texas caused rancher to continue to reduce their herds. For all of 1998, fed cattle prices averaged 7 percent lower than in 1997 and was the lowest price in the 1990's. In 1999, fed cattle prices are projected to improve to near the level of 2 years ago, but still well below the average of the 1990s.

Broiler prices did well in 1998, averaging 7 percent above the year earlier, as production was negatively affected by below normal egg hatching rates. In response to the higher prices and a return to more normal hatching rates, broiler production is projected to be up about 5 percent in 1999. Growing consumer demand will likely about offset the increase in broiler production helping to hold broiler prices in 1999 above the average of the 1990s.

Farm-level milk prices were record-high in 1998, averaging $15.38 per cwt. compared with $13.34 in 1997, as milk production was adversely affected by weather in California, Texas, and the Southeast. Dairy farmers appear to be reacting to the record-high prices and low feed costs of the past year by expanding milk production. After being up only fractionally for most of last year, milk production has increased sharply in recent months leading to lower milk prices. For 1999, USDA projects farm-level milk prices will average about $1 per cwt. lower than 1998, but above the average of the 1990s.

CONCLUSION

To summarize, after 2 years of record and near record prices, exports, and income, the US agricultural economy is entering a period of significant weakness that will take at least 2 to 3 years before recovering.

The grains will continue under pressure, soybeans will fall sharply in price, and the livestock sector will remain, at best, relatively flat. While the volume of US farm exports will stay at or near current levels, the value, because of low US and world prices, will fall significantly. Absent major infusions of government spending, on the magnitude of what Congress appropriated last year, farm income will soften considerable.

As a result, the sector will continue to experience very significant pressure on small and medium sized farmers and accelerating the trends towards more bipolarization of the sector – increased concentration of fewer and bigger farmers, a scattering of small and very small, most part-time farmers, as medium sized farmers, continue to be squeezed.
attachments:

excerpts from –
USDA's Agricultural Baseline Projections to 2008 and
Outlook for US Agricultural Trade

MENU OF OPTIONS

While constructive, with one exception, the farm policy proposals the Administration has advanced to date will fail to stem the growing crisis in agriculture and mitigate its effects on many farmers and ranchers – these conditions and the outlook are discussed in more depth in the attached paper "The Outlook for the Farm Economy."

That exception is the President's request for additional farm loan funding for FY99; the $150 million supplemental will translate into about 10,000 more loans, worth around $1 billion. While the Administration should continue to pursue proposals that are budget-neutral or involve only marginal new spending, without options that transfer meaningful amounts to the farm sector, its agenda belies its rhetoric.

This Congress will not rewrite the 1996 farm bill; the leadership has made that abundantly clear, repeatedly. However, it is receptive to farm legislation: The leadership has spoken about the need to address the farm slump, the Speaker said crop insurance reform is a top priority this year, others in his party have broached the subject of fundamental policy changes, the chairman of the House Agriculture Committee predicts another disaster bill this year, and the House Budget Committee included $6 billion in its budget resolution for crop insurance. The Democrats are already squarely on record for more farm relief.

The following proposals are not exhaustive and the spending estimates rough. Nonetheless, they reflect items either already on the farm agenda, likely to arise through this year, or that the Administration may want to initiate. These costs, while not definitive, are sufficiently accurate to define the magnitude of spending associated with a meaningfully realistic agenda.

Crop insurance reform: The details that lie behind the white paper the Administration released February 1 on crop insurance reform are described in the attached paper "Investing in the Safety Net." As described there, the proposal will cost between $2 billion and $2.5 billion per year.

Especially with the House Budget Committee action noted above, the Administration needs to decide whether to submit a formal legislative proposal to Congress or continue its posture of supporting the concept while shying away from the funding question.

Livestock loss assistance: Livestock is the largest sector of agriculture, generating over half the receipts. However, the government provides assistance to help livestock producers recover from natural disasters only on an ad hoc basis, and even then, in amounts that only cover a fraction of their losses. For example, the funding provided in the FY99 omnibus appropriations bill will cover only 25% of the losses.

The Administration could propose a standing livestock assistance program, to work in conjunction with the livestock insurance program included in the crop insurance reform package or to be effective until that pilot program matured to widespread availability. Past estimates of the annual costs of such proposals have been based on 5 year averages, which come to about $200 million per year.

Farm income protection: The Administration's most salient criticism of the 1996 farm bill, and the one that resonates best, is that the bill lacks the counter cyclical protection of past programs – it fails to increase income support payments when prices fall. Congress, too, tacitly recognized that failing in the disaster bill when it appropriated the $2.8 billion income loss component.

The Administration considered a variation of that provision during the disaster bill's development that would have made payment to farmers equal to 30% of the drop in gross income from the average of the preceding 5 years. It would have cost about $1.8 billion.

The Administration could propose a similar program, not as a single year plan but as a standing program for the life of the farm bill with payments triggering as determined by and in the amounts provided for in the formula. It would remedy the counter cyclical flaw discussed above, as does the frequently discussed proposal to uncap the rate on marketing loans, but without attracting the same criticism the latter proposal always does.

Livestock income protection: The idea discussed immediately above could be expanded to include livestock producers. The cost would depend upon the formula and the breadth of coverage but to illustrate the potential magnitude, if the plan paid farmers 1 cent for each chicken, the cost would hit $70 million.

Dairy: After hitting record highs in December, milk prices have plummeted. In February, they registered their sharpest one-month drop ever and production is significantly above year-earlier levels. The farm bill requires a milk marketing order reform plan from USDA by April 4 and when announced, it will re-ignite a volatile, regionally-divisive debate, pitting the upper Midwest against the rest of the country.

While this plan, and milk marketing orders generally, are not price supporting mechanisms, its issuance and the drop in dairy prices will fuel the likely congressional debate over whether to permit USDA to implement the plan – Congress has until September 30 to block it.

Meanwhile, two related developments are playing out that will push dairy to the top of the farm agenda: First, an unexpectedly high number of state legislatures are adopting dairy compact bills. Most would either attach themselves to the existing New England Interstate Dairy Compact or the proposed southern states compact. In short, as patterned on the New England compact, each permits the member states to exclude milk from other parts of the country and increase prices, generally far in excess of the levels set in federal milk marketing orders. Second, the dairy price support program ends December 31, 2 years before the rest of the farm bill.

The Administration could propose extending the dairy price support program for 2 years at $10 per hundredweight, a slight increase over the current level. Compared to the present program, this would cost about $25 million per year; compared to no program, this would cost about $100 million.

<u>Cotton</u>: The farm bill included $700 million for a program, known as step 2, that subsidized exports and compensated domestic millers for the difference between US and world prices. That fund was exhausted in December. As a result, export projections are off sharply and imports will increase dramatically, hitting about 300,000 bales by the end of the current crop year, July 31.

The Administration could propose replenishing this fund for the life of the farm bill, which CBO scores at about $450 million. Alternatively, the Administration could propose changing the import triggers to limit them to our WTO commitment plus some amount above that based on a domestic stocks-to-use ratio.

<u>Short-term conservation reserve</u>: During the disaster bill's consideration, the Administration considered a program to pay farmers to idle farm land for 3 to 5 years if they agreed to implement conservation practices on the land during that period. The proposal grew largely out of concern to help farmers whose land was submerged temporarily or unproductive because of disease, wheat scab in this instance. The idea still resonates for those reasons, and because of the increasing concern about surpluses growing.

The Administration could propose such a program, modeled on the current Conservation Reserve Program, but only require farmers to idle their land for 3 to 5 years. It would cost about $200 million per year.

<u>Exports</u>: The Administration could propose increasing the current $30 million annual cap on transportation costs constraining the amount of commodities that can moved under certain overseas donation programs.

The wheat donation initiative the President announced last summer has been hugely successful. The Administration could, without further legislation, expand it to other commodities, soybeans being the most likely next target.

The legislative proposals described in the opening paragraph, and that are in the process of being written or cleared, include:

<u>Mandatory livestock price reporting</u>: The bill would give USDA the ability to require businesses to report to USDA the price at which they buy and sell livestock and products; presently, such information is reported voluntarily, thus giving farmers an incomplete picture of the market. By disseminating more complete price information, the bill will make the markets more transparent.

Extend commodity loans: The loans farmers can get from USDA that are collateralized by their crops must be repaid in 9 months, thus forcing farmers to market their crops within that period or forfeit the crop to USDA. This legislation will restore the provisions in the farm programs before the 1996 farm bill that permitted USDA to extend the term when market conditions warrant.

On-farm storage: Prior to the 1996 farm bill, USDA had authority to finance on-farm storage. This legislation, by reinstating that authority, would, like the one immediately above, provides farmers more marketing flexibility.

Haying and grazing reform: If in a natural disaster area, farmers may hay or graze the land that they have in the CRP. The system is unpredictable and rife with bureaucracy, rules that change constantly, and political pressures. This legislation would adopt a standing rule that would allow farmers to graze one-third of that land every year or all of it once every 3 years.

Fruits and vegetable planting flexibility: Notwithstanding its popular name, the farm bill does not give farmers the freedom to farm whatever that want. In particular, farmers cannot switch to alternative crops, like fruits and vegetables, without being penalized; this restriction is particularly onerous for farmers who want to diversify or whose primary crops fail. This legislation would remove that barrier.

Fair practices protection: This legislation would prohibit purchasers from price discrimination against farmers who are members of cooperatives; it is designed not only to level the playing field for cooperative members, but also facilitate their development.

Livestock dealer trust: This legislation would require livestock dealers to hold in trust funds sufficient to cover prices they pay for livestock. Patterned on a program applicable to the fresh fruit and vegetable business, this is designed to protect livestock producers in the event purchasers go out of business.

Poultry enforcement: Currently the Packers and Stockyards Act, the main statute governing the relationship between livestock buyers and sellers and prohibiting anticompetitive and unfair business practices applies to all livestock except poultry. This bill broadens the statute to cover that part of the industry.

Strengthening the Farm Safety Net

OMB's Summary of the Administration's Crop Insurance Reform Proposal

March 17, 1999

Overview and Recent Developments

Both the President in his State of the Union Speech and the FY 2000 Budget have stated the Administration will seek to reform the farm income safety net this year. While the Budget did not include specific safety net proposals, Sec. Glickman issued "The Administration's Principles and Preliminary Proposals for Reforming Crop Insurance" on February 1st (the day the Budget was released) that essentially outlined the principles agreed upon by the NEC working group in December 1998. On March 10th, the USDA Administrator of the Risk Management Agency (which administers the crop insurance program) testified before the House Agriculture Committee and outlined the specifications for the Administration's crop insurance reform proposal, stating it would cost between $2 and $2.5 billion per year. USDA has prepared and sent to OMB draft legislative language for the proposal. OMB has the language under review and is awaiting USDA's scoring of the bill.

The Chairman's Mark of the Senate Budget Resolution includes a reserve of $6 billion for "risk management and income assistance for agricultural producers", meaning the Agriculture Committee can report a bill costing this amount without having to offset it. However, because the Resolution further states this reserve is only available if crop insurance and other legislation would not result in an on-budget deficit" (budget totals excluding the Social Security surplus), it would not be available for FY 2000 unless other legislation reduces spending by $12 billion under the Administration's forecast, or by $3 billion under the Budget Resolution's assumptions. Therefore, crop insurance reform implementation would have to be implemented beginning in FY 2001, unless the reform's FY 2000 costs are offset by the Agriculture Committee. In addition, the Resolution provides only $6 billion for the entire period FY 2000 - 2004 and 2000 - 2009 (the Senate has a ten-year PAYGO point of order). Therefore, additional crop insurance/income assistance would have to sunset in five years or be provided at a low level of subsidy. The House Budget Resolution reportedly also contains a similar $6 billion reserve for "crop insurance" reform for the same period of time as the Senate.

Senators Kerry (NE) and Roberts (KS) have sponsored a bill that Senators Grassley and Conrad and a number of other Senators have co-sponsored, the "Crop Insurance for the 21st Century Act", that includes many items in the Administration's package (e.g., increasing premium subsidies, livestock coverage, and multi-year coverage). In the House, Cong. Pomeroy (ND) is circulating a draft "Crop Insurance Improvement Act of 1999" that is also similar to the Administration's proposal, although with deeper subsidies.

Background

The 1994 Crop Insurance Reform and 1996 Farm Bills attempted to create a farm income safety net of market-oriented programs such as crop insurance, and move away from ad hoc disaster and price-support programs. After the 1994 Reform Act, a producer's participation in the crop insurance program was required in order to remain eligible for other USDA program benefits. Participation soared under this policy (from 35 to 80% of insurable acres), but has tapered off since the 1996 Farm Bill's lifting of this so-called "linkage" (to 63%).

U.S. agriculture experienced excellent growth from 1994 through 1997. Net cash farm income reached a record $61 billion in 1997 as export demand grew and world commodity stocks tightened. In 1998, regional weather problems and multi-year production losses, as well as nation-wide low prices for many commodities, revealed shortcomings in the safety net and particularly its centerpiece, the crop insurance program.

In response, the Administration negotiated a $6 billion disaster assistance package in the FY 1999 Omnibus Appropriations Bill to enhance farm income. This aid helped to maintain farm income in 1998 near the record level set in 1997. Still, USDA and others project low prices for some major crops to persist through 2001. For the long-term solution, the Administration is proposing to enhance the crop insurance program as the core of its policy to improve the farm income safety net.

The Crop Insurance Program and Recent Criticism

The Federal crop insurance program currently insures 63 percent of the nation's insurable acreage. Most farmers purchase coverage that equates to a guaranteed 65 percent of expected revenue from farm operations ("65/100" coverage: 65% of yield; 100% of price), though roughly a third of producers are covered at under 28 percent, i.e., Catastrophic (CAT) coverage ("50/55"). (See attached Appendix for a description of crop insurance coverage.) The program is delivered by private insurance companies who also accept a portion of the risk associated with each policy. The Government subsidizes crop insurance in three ways: premium subsidies, delivery expense reimbursement to private insurance companies, and reinsurance of private companies.

Strong criticism was leveled at the crop insurance program in 1998 due to the program's unaffordability; inadequate coverage; no provisions for multi-year losses or livestock coverage; and no coverage at all for many crops. These criticisms are addressed in the Administration's plan to reform crop insurance.

The first two criticisms, affordability and low coverage, are essentially the same and voice farmer's dissatisfaction with the level of free, CAT coverage and the cost of buying coverage above this minimum level. Federal ad hoc disaster assistance, such as provided in the 1999 Omnibus bill, has reinforced farmers' disincentive to purchase additional coverage. The Administration's crop insurance reform proposal attempts to obviate the need for future ad hoc measures through significant increases in both the value in, and variety of, crop insurance policies.

The Administration's Proposed Enhancements to the Crop Insurance Program

Summary of the proposal (dollars per year in millions):

Increase CAT coverage and "buy-up" premium subsidies	1,500
Create multi-year coverage	400
Increase Non-Insured Assistance (NAP) coverage; extend NAP to livestock	400
Provide incentives to private industry to spur product development	150
Producer risk management education; options pilot programs	50
Total	2,500

To increase program participation, and boost coverage levels, the Administration proposes to increase crop insurance subsidies on both Catastrophic (CAT) and higher levels of coverage ("buy-up"), including revenue insurance. This would be accomplished by increasing coverage on free, CAT policies and increasing premium subsidies on higher levels of buy-up policies. CAT coverage would be increased from 28 percent ("50/55" coverage) to 42 percent ("60/70" coverage) of expected revenue. Increases in buy-up subsidies would aim to move the majority of buy-up customers from 65 percent coverage to 70 percent. The costs of these increased subsidies are estimated at $1.5 billion in FY 2000.

The proposal creates coverage for producers with multi-year losses through an optional "add-on" to current policies that increases coverage retroactively for producers who experience losses in two out of three years. The additional costs of the multi-year coverage are estimated at $400 million in FY 2000.

Crop insurance policies have yet to be introduced for a number of crops and all livestock. The proposal increases coverage of these "non-insured" commodities under the existing Non-Insured Assistance Program (NAP) by effectively extending coverage equivalent to the CAT proposal (i.e., 42 percent of expected revenue). Further, the proposal would extend that coverage to livestock for the first time. The expected costs of enhancements to NAP are $400 million in FY2000.

While increases in NAP coverage will lock-in a minimum of 42 percent of expected farm income, the proposal goes further to engage private insurance companies in a program that would reimburse them for their research and product development (R&D) on successful new policies. The objective of the new R&D incentive program is to bring new crop policies into the program in rapid succession, thus allowing producers of non-insured commodities to obtain buy-up coverage on these crops. The costs of this new expanded element of the private/public partnership are estimated at $100 million in FY 2000. In addition to establishing livestock coverage under NAP, the Administration would work with the private insurers under these new R&D incentives to develop a livestock revenue policy. If the policy is ready for a roll-out in the 2000 crop year, expected costs in FY 2000 would be $50 million.

Spending on stepped-up programs to educate producers on risk management would be supported by $50 million in annual spending. These funds would be used to conduct extensive outreach in producer risk management workshops offered at the county level, expand the new options pilot program into other commodities, and fund enhancements to college curricula in the area of farm risk management.

BACKGROUND

Appendix A: The Federal Crop Insurance Program (USDA)

Crop insurance coverage is made up of two components, yield coverage and price coverage. The buyer can choose among various coverage combinations of both yield and price. At present, the minimum coverage level insures 50 percent of average yield at 55 percent of a USDA-set price. This plan is known as Catastrophic Risk Protection (CAT), or "50/55" coverage. The highest coverage available nationally is the 75/100 level. The most popular coverage to date is the 65/100 level. At this level of coverage, if the insureds suffer a 50 percent yield loss, they are made whole on the insured lost production, or 15 percent in this case, and the indemnity payment then covers the 15 percent of covered loss times 100 percent of the expected price.

USDA currently offers two general levels of insurance coverage: Catastrophic Risk Protection (CAT), and "buy-up" coverage, which is all coverage levels higher than CAT. CAT premiums are 100 percent subsidized, and the farmer only pays a nominal administrative fee for it ($50). CAT covers only 28 percent of expected revenue. Buy-up coverage is available at levels between 60 and 75 percent of expected revenue and is subsidized on a scale that slides downward as coverage increases -- 65 percent coverage involves a 40-percent premium subsidy, and 75 percent coverage involves a 24-percent subsidy.

USDA has performed recent marketing analyses to estimate how much an average producer is willing to pay for buy-up crop insurance. That amount is $5.30 for each $100 of liability insured. USDA proposes to apply that farmer-paid amount to a coverage level (70 percent of expected revenue) that is considered high enough to restore credibility to the crop insurance program in the wake of the strong criticisms last summer.

The following example illustrates how the insurance coverage works:

- a) a corn grower with 1,000 acres and an average yield of 100 bushels per acre has an expected yield of 100,000 bushels.
- b) the insured price set by USDA is $2.30 per bushel.
- c) "70/100" coverage is purchased, so the farmer has insured $161,000 of liability (70,000 bushels at $2.30/bu.).
- d) if the farmer experiences a 40 percent yield loss (i.e., a harvest of 60,000 bushels), an indemnity of $23,000 would be paid (i.e., the 10,000 bushels that would make the farmer whole up to 70 percent of average production multiplied by 100 percent of the $2.30/bu. price).
- e) the total insurance premium for the coverage would likely be around $8,000, of which 40 percent, $3,200, is currently paid by USDA; the farmer actually nets $17,200 ($23,000 - $4,800).
- f) USDA also reimburses the private insurers' administrative expenses at a rate of 24.5 percent of gross premium, or in this case $1,960.

USDA

GREG FRAZIER
Chief of Staff

RB

To Sally Katzen -

Background paper for today's 4:00 meeting.

GF.

DESCRIPTION OF MAJOR US FARM PROGRAMS

Programs
- Production Flexibility Contract Payments
- Loan Deficiency Payments
- Conservation Reserve Program
- Federal Crop Insurance
- Farm Credit Programs

Background Data
- CCC outlays
- Chapter 12 bankruptcy filings
- Payment distribution

March 25, 1999

SUMMARY TABLE–MAJOR FARM PROGRAMS

	Production Flexibility Contract Payments	Loan Deficiency Payments/Marketing Loan Gains	Conservation Reserve Program Payments	Federal Crop Insurance Indemnity Payments	USDA Credit Programs
FY 1999 Budget Authority	$8.5 billion in FY 1999 including $2.9 billion in market loss payments $5.6 billion in FY 2000	Outlays determined by the level of market prices Current estimate for FY 1999 $3 billion	Over 31 million acres currently enrolled at a cost of $1.6 billion Enrollment capped at 36.4 million acres	Estimate for FY 1999 of $1.7 billion An additional $2.4 billion was authorized last year to cover 1998 and prior-year crop losses	Current funding level will provide for $2.7 billion in loans. The Administration has requested an additional $152 million to increase lending by an additional $1 billion
Type of Payment	Fixed Decoupled from price and production	Variable Payment triggered if market prices less than loan rates	Fixed Rental payment per acre for life of contract	Variable Payment triggered if production or revenue falls below prescribed coverage level	NA
Quantity Eligible for Payment	85 percent of pre-1996 base acreage times pre-1996 program yield	All current production	Acreage enrolled in the program	Insurance coverage up to 85 percent of expected value of production. Insurance available for over 60 crops.	NA
Payment Limit	$40,000	$75,000	NA	NA	$700,000
Implications for WTO internal support disciplines	Exempt from WTO reduction commitments	Subject to WTO reduction commitments	Exempt from WTO reduction commitments	Subject to WTO reduction commitments	Exempt from WTO reduction commitments

INVENTORY OF CURRENT MAJOR FARM PROGRAMS

▸ Production Flexibility Contract Payments (PFC)

- Description: Fixed payments decoupled from production and prices that replaced pre-1996 farm bill target price/deficiency payments which were linked to current prices and partially depended on production. Congress established total funding level in 1996 farm bill and allocation of payments among crops--wheat 26.26%; corn 46.22%; grain sorghum 5.11%; barley 2.16%; oats 0.15%; upland cotton 11.63%, and rice 8.47%.

- Funding Level: Congress established funding level through 2002 in the 1996 Farm Bill.

  FY 1999 $5.6 billion
  FY 2000 $5.1 billion
  FY 2001 $4.1 billion
  FY 2002 $4.0 billion

- Emergency Funding: The FY 1999 Appropriations Act added $2.9 billion in emergency "market loss payments" to the $5.6 billion.

- Eligibility Criteria: All producers who signed production flexibility contracts in 1996. About 99 percent of historical acreage planted to grains, cotton and rice and 90 percent of farms planting these crops are eligible for payments. Eligible producers are subject to conservation compliance and wetland protection requirements and limitations on the planting of fruits and vegetables. Producers are not required to plant a crop to receive payments as long as land remains in conserving use.

- Size of Payments: Each producer's payment equal to 0.85 times the producer's pre-1996 farm bill crop-specific acreage base times the pre-1996 farm bill crop specific program yield times the payment rate for each crop. Payment rates are determined by dividing total payments by total production eligible for payment. Individual producer payments capped at $40,000.

- Risk Reduction: Payments are not tied to the level of market prices or production and do not provide counter cyclical protection in event of yield or revenue shortfall, except through intertemporal savings.

- Distribution of Payments: The bulk of these payments go to the largest grain, cotton and rice farms. The largest 6 percent of farms receive 36 percent of total payments. Regionally, payments are concentrated in the Corn Belt, Northern and Southern Plains, Upper Midwest, and Delta.

- WTO implications: Since PFC payments are decoupled from prices and production, they are considered exempt from WTO reduction commitments. Since emergency market loss payments are tied to low prices, they will be notified to WTO as internal supports subject to reduction disciplines.

- **Loan Deficiency Payments/Marketing Loan Gains**

  - Description: Direct payments based on the difference between the announced loan rate and the market price for wheat, feedgrains, and soybeans and the difference between the announced loan rate and the world price for rice and upland cotton. These payments were re-authorized in the 1996 Farm Bill. USDA uses terminal market prices to establish daily local market prices for wheat and feedgrains and international market price quotes to establish weekly world prices for rice and upland cotton.

    Under previous legislation, loan rates were based on a 5-year olympic moving average of past prices. This formula was continued in the 1996 Farm Bill, but loan rates were capped at 1995-crop levels for corn ($1.89 per bushel), wheat ($2.58 per bushel), upland cotton ($0.5192 per pound), and rice ($6.50 per cwt.), and at $5.26 per bushel for soybeans. Minimum loan rate levels apply to cotton ($0.50 per pound), rice ($6.50 per cwt.) and soybeans ($4.92 per bushel).

  - Funding Level: Outlays determined by the level of market prices. President's Budget projects outlays of:

FY 1999	$2.1 billion
FY 2000	$3.5 billion
FY 2001	$3.0 billion
FY 2002	$1.8 billion

    Lower than expected prices for grains and oilseeds are expected to raise spending to over $3.0 billion in FY 1999.

  - Eligibility Criteria: All producers of grains, cotton and rice who signed production flexibility contracts in 1996 and any producer of oilseeds. About 99 percent of historical acreage planted to grains, cotton and rice and 90 percent of farms planting these crops eligible for payments. Eligible producers subject to conservation compliance and wetland protection requirements and limitations on the planting of fruits and vegetables.

  - Size of Payments: Each producer's payment equal to the difference between the loan rate and the market price times total production. Individual producer payments capped at $75,000.

  - Risk Reduction: Once market price falls below the loan rate, payments increase as market price falls helping to stabilize producers' incomes. Since payments are tied to the level of current production, they may distort production.

  - Distribution of Payments: The bulk of these payments go to the largest grain, cotton, rice, and soybean farms. About 6 percent of the largest farms receive 36 percent of total payments. Regionally, payments are concentrated in the Corn

Belt, Northern and Southern Plains, Upper Midwest, and Delta.

- WTO implications. Since payments are tied to production and prices, marketing loan gains and loan deficiency payments are subject to WTO reduction commitments.

▸ Conservation Reserve Program (CRP) Payments

- Description: Direct annual payments paid to producers who retire environmentally sensitive cropland from production for 10-15 years. Payments are based on local cropland rental rates and the Federal government pays a portion of the cost of establishing permanent cover. USDA is also providing enhanced payments to producers who adopt special practices, such as filter strips and riparian buffers, and is working with States to enroll cropland that is contributing to special environmental problems.

  The 1996 Farm Bill capped the CRP at 36.4 million acres, down from 40-45 million acres in prior legislation. Slightly over 31 million acres are currently enrolled in the CRP.

- Funding Level: President's Budget projects funding of:

FY 1999	$1.6 billion
FY 2000	$1.6 billion
FY 2001	$1.7 billion
FY 2002	$1.8 billion

- Eligibility Criteria: All environmentally sensitive cropland eligible for the program but only the most sensitive lands selected. Participating producers subject to conservation compliance and wetland protection requirements.

- Size of Payments: Each producer's annual payment equal to the acreage enrolled times the accepted rental rate plus cost-share for establishment of permanent cover.

- Risk Reduction: CRP payments do not vary with the level of market prices. However, for an individual producer, CRP rental payments help to stabilize income, since enrolling acreage in the CRP reduces the proportion of income subject to volatile crop prices. Increased CRP enrollment during periods of low prices may help to boost crop prices for all producers.

- Distribution of Payments: The bulk of these payments go to the largest grain, soybean and cotton farms. Regionally, payments are concentrated in the Northern and Southern Plains, Upper Midwest, Delta, and Corn Belt.

- WTO implications. Conservation payments are exempt from reduction commitments.

- **Federal Crop Insurance Program Indemnity Payments**

  - Description: Payments paid to producers who purchase Federal crop insurance and whose crop production or crop revenue falls below a designated guarantee. Catastrophic risk protection (CAT) covers losses in excess of 50 percent of a producer's approved yield at 55 percent of the market price. Buy-up coverage, covers losses in excess of 15-35 percent of a producer's approved yield at 100 percent of the market price. In addition, several revenue insurance policies are now available. Of total buy-up enrollment, revenue insurance accounted for over 32 percent of corn acreage, 35 percent of soybean acreage and about 16 percent of wheat acreage in 1998.

    CAT coverage costs producers $60 per crop. Premiums paid by producers for buy-up coverage are subsidized by the Federal government. At the 65 percent coverage level, the level of Federal subsidy is 42 percent.

    In 1998, 180 million acres were enrolled, or about 65 percent of total eligible acres. About two-thirds of these acres were enrolled in buyup policies.

  - Funding Level: Actual outlays of $1.4 billion in FY 1998. Outlays in FY 1999 estimated at about $1.7 billion.

  - Supplemental Funding: The FY 1999 Appropriation Act provided an additional $2.35 billion in payments to producers who suffered crop losses in 1998 and prior years. Of this amount, $400 million has been set aside to provide additional subsidies for producers who purchase buyup coverage in 1999.

  - Eligibility Criteria: Participating producers subject to conservation compliance and wetland protection requirements.

  - Size of Payments: Each producer's annual payment depends on whether crop production or revenue drops below a designated threshold. Producers can insure up to 85 percent of their yield or expected revenue.

  - Risk Reduction: Federal crop insurance payments offset a portion of income lost resulting from reduced crop production or reduced revenue. However, many producers argue that the level of protection provided is inadequate.

  - Distribution of Payments: The bulk of these payments go to the largest crop farms. Regionally, payments are concentrated in the Northern and Southern Plains, Upper Midwest, Delta, and Corn Belt.

  - WTO implications. Because they do not meet WTO green box criteria, crop insurance payments are reported as internal supports subject to reduction.

- **Credit Programs**

  - Description: USDA provides direct and guaranteed farm ownership and operating loans to farmers who are temporarily unable to obtain credit elsewhere. Loans are also provided to farmers who have suffered financial setbacks caused by natural disasters or whose resources are limited. Often, these are beginning farmers who cannot qualify for conventional loans because they have insufficient net worth.

    The amount of outstanding farm debt held by USDA has fallen sharply since the mid-1980s, dropping from over $23 billion in 1984 to about $8 in 1998, as Congress reduced funding and imposed more stringent lending practices. In 1998, USDA held less than 5 percent of total farm debt, but USDA held nearly two-thirds of delinquent farm business loans. Nearly one-quarter of USDA farm business loans are currently delinquent.

  - Funding Level: In FY 1998, USDA provided about $2.1 billion in direct and guaranteed loans to farmers. The current funding level for FY 1999 provides for direct and guaranteed farm loans of about $2.7 billion.

  - Supplemental Funding: The demand for farm loans has risen sharply in recent months. Since October 1, farm loan activity has increased 65 percent over the same period last year. The Administration has asked Congress to provide supplemental funding of $152 million which would increase farm lending by an additional $1 billion.

  - Eligibility Criteria: Participating producers subject to conservation compliance and wetland protection requirements. In addition, program eligibility is contingent on a producer's inability to obtain a loan elsewhere and to meet loan repayment criteria.

  - Size of Payments: Current law limits total farm ownership and operating loans to $700,000 per producer.

  - Risk Reduction: Credit can provide a source of funds to offset reduced income caused by shortfalls in crop production or low prices. However, returns in future years must be enough to cover loan principal and interest payments.

  - Distribution of Payments: While there has been increased emphasis over the past decade on targeting credit to limited resource and beginning producers, medium and large producers account for most of the loan volume. Regionally, loan volume is concentrated in the Northern and Southern Plains, Upper Midwest, Delta, and Corn Belt.

  - WTO implications. Credit programs are exempt from WTO reduction commitments.

Table 35—CCC Net Outlays by Commodity & Function

	Fiscal year									
	1991	1992	1993	1994	1995	1996	1997	1998	1999 E	2000 E
	$ million									
COMMODITY/PROGRAM										
Feed grains:										
Corn	2,387	2,105	5,143	625	2,090	2,021	2,587	2,873	4,894	3,087
Grain sorghum	243	190	410	130	153	261	284	296	474	311
Barley	71	174	188	202	129	114	109	168	316	148
Oats	12	32	16	5	19	8	8	17	32	20
Corn and oat products	9	9	10	10	1	0	0	0	0	0
Total feed grains	2,722	2,510	5,765	972	2,392	2,404	2,988	3,354	5,716	3,566
Wheat and products	2,805	1,719	2,185	1,729	803	1,491	1,332	2,187	2,918	1,291
Rice	867	715	887	836	814	499	459	491	707	433
Upland cotton	382	1,443	2,239	1,539	99	685	561	1,132	1,629	781
Tobacco	-143	29	235	693	-298	-496	-156	376	-254	-143
Dairy	839	232	253	156	4	-98	67	291	435	528
Soybeans	40	-29	109	-163	77	-65	5	139	450	2,339
Peanuts	48	41	-13	37	120	100	6	-11	1	0
Sugar	-20	-19	-35	-24	-3	-63	-34	-30	-48	-41
Honey	19	17	22	0	-9	-14	-2	0	1	-1
Wool and mohair	172	191	179	211	108	55	0	0	6	-6
Operating expense[1]	625	6	6	6	6	6	6	5	4	4
Interest expenditure	745	532	129	-17	-1	140	-111	76	152	181
Export programs[2]	733	1,459	2,193	1,950	1,361	-422	125	212	960	1,014
1988/98 Disaster/tree/ livestock assistance	121	1,054	944	2,566	660	95	130	3	2,609	4
Conservation Reserve Program	0	0	0	0	0	2	1,671	1,693	1,508	1,578
Other conservation programs	0	0	0	0	0	7	105	197	309	366
Other	155	-162	949	-137	-103	320	104	28	1,101	531
Total	10,110	9,738	16,047	10,336	6,030	4,646	7,256	10,143	18,204	12,425
Function										
Price support loans (net)	418	584	2,065	527	-119	-951	110	1,128	55	982
Cash direct payments:[3]										
Production flexibility contract	0	0	0	0	0	5,141	6,320	5,672	5,544	5,042
Marketing loss assistance	0	0	0	0	0	0	0	0	3,058	0
Deficiency	6,224	5,491	8,607	4,391	4,008	567	-1,118	-7	0	0
Diversion	0	0	0	0	0	0	0	0	0	0
Dairy termination	96	2	0	0	0	0	0	0	0	0
Loan deficiency	21	214	387	495	29	0	0	478	1,804	2,713
Other	0	140	149	171	97	95	7	416	288	10
Conservation Reserve Program	0	0	0	0	0	2	1,671	1,693	1,508	1,578
Other conservation programs	0	0	0	0	0	0	85	156	260	310
Noninsured Assistance (NAP)	0	0	0	0	0	2	52	23	67	89
Total direct payments	6,341	5,847	9,143	5,057	4,134	5,807	7,017	8,431	12,529	9,742
1988-98 crop disaster	6	960	872	2,461	584	14	2	-2	2,375	0
Emergency livestock/tree/DRAP livestock indemn/forage assist.	115	94	72	105	76	81	128	5	234	4
Purchases (net)	646	321	525	293	-51	-249	-60	207	737	11
Producer storage payments	1	14	9	12	23	0	0	0	0	0
Processing, storage, and transportation	240	185	136	112	72	51	33	38	84	42
Export donations ocean transportation	50	139	352	156	50	69	34	40	681	65
Operating expense[1]	625	6	6	6	6	6	6	5	4	4
Interest expenditure	745	532	129	-17	-1	140	-111	76	152	181
Export programs[2]	733	1,459	2,193	1,950	1,361	-422	125	212	960	1,014
Other	190	-403	545	-326	-105	100	-28	3	393	380
Total	10,110	9,738	16,047	10,336	6,030	4,646	7,256	10,143	18,204	12,425

1. Does not include CCC Transfers to General Sales Manager. 2. Includes Export Guarantee Program, Direct Export Credit Program, CCC Transfers to the General Sales Manager, Market Access (Promotion) Program, starting in FY 1991 and starting in FY 1992 the Export Guarantee Program - Credit Reform, Export Enhancement Program, Dairy Export Incentive Program, and Technical Assistance to Emerging Markets.
3. Includes cash payments only. Excludes generic certificates in FY 86-96. E=Estimated in the FY 2000 President's Budget which was released on February 1, 1999 based on November 1998 supply and demand estimates. The CCC outlays shown for 1996-2000 include the impact of the Federal Agricultural Improvement and Reform Act of 1996, which was enacted April 4, 1996. Minus (-) indicates a net receipt (excess of repayments or other receipts over gross outlays of funds). *Information contact: Richard Pazdalski Farm Sevice Agency - Budget at (202) 720-3675 c Richard_Pazdalski@wdc.fsa.usda.gov. Further detail can be found at www.fsa.usda.gov/dam/BUD/bud1.htm*

Total Bankruptcy Filings by Bankruptcy Chapter

Year	Chapter			
	7	11	12	13
1994	567,240	14,773	900	249,877
1995	626,150	12,904	926	286,588
1996	810,400	11,911	1,083	355,123
1997	989,372	10,765	949	403,025
1998	1,035,696	8,386	807	397,619

Source: Administrative Office of the U.S. Courts, March 1, 1999
Note: Chapter 7 is designed to allow individuals to keep certain exempt property while the remaining property is sold to repay creditors. Under Chapter 13 Bankruptcy, creditors may be repaid in installments, in full or in part, over a 3- to 5-year period. Chapter 11 provides for a business to continue operations while formulating a plan to repay its creditors. Chapter 12 is designed to meet the needs of financially distressed family farms.

Direct Government Payments by Size Class, 1997

Item	Farms with gross sales of:							
	$1,000,000 and over	$500,000 to $999,999	$250,000 to $499,999	$100,000 to $249,000	$50,000 to $99,999	$20,000 to $49,999	Less than $20,000	All
Number of farms	18,767	34,764	82,984	207,058	187,831	270,183	1,257,323	2,058,910
Gross cash income (billion $)	71.1	31.3	36.3	43.5	20.7	12.7	12.4	228.0
Direct govt payments (billion $)	0.5	0.8	1.4	2.1	1.0	1.0	0.9	7.5
Direct-payments as percent of gross cash income	0.7	2.6	3.9	4.8	4.8	7.9	7.3	3.3

Appendix table 5—Farm income for selected types of farms, 1997-99F 1/

Item	Cash grain 2/	Cotton	Total crops	Cattle	Hogs	Dairy	Total livestock
				$ billion			
Gross cash income							
1997	58.7	6.1	125.9	34.5	11.8	23.8	102.1
1998P	52.6	6.1	121.0	33.4	8.6	27.3	101.7
1999F	48.7	6.2	117.1	35.9	9.0	25.9	102.7
Crop receipts							
1997	46.5	5.2	106.8	2.3	1.0	0.9	5.3
1998P	39.1	4.9	98.9	2.4	1.1	1.0	5.6
1999F	36.3	5.2	96.6	2.3	1.0	1.0	5.4
Livestock receipts							
1997	6.0	0.1	7.8	28.1	10.3	22.1	88.7
1998P	4.4	0.1	6.6	26.6	6.9	25.0	86.8
1999F	4.8	0.1	7.2	29.6	7.4	23.9	88.8
Direct Government payments							
1997	4.2	0.4	6.1	0.8	0.1	0.3	1.4
1998P	7.0	0.6	10.4	1.4	0.3	0.5	2.5
1999F	5.5	0.5	8.2	1.1	0.2	0.4	2.0
Cash expenses							
1997	42.7	5.2	96.3	26.3	6.6	21.2	70.9
1998P	41.0	5.2	91.3	26.7	6.8	21.3	72.2
1999F	41.1	5.2	91.7	26.8	6.9	21.3	72.5
Net cash income							
1997	16.0	0.9	29.6	8.2	5.2	2.6	31.2
1998P	11.6	0.9	29.7	6.7	1.8	6.0	29.5
1999F	7.5	1.0	25.3	9.1	2.1	4.6	30.1

P=preliminary. F = forecast. Numbers are rounded.

1/ Farm types are defined as those with 50 percent of more of the value of production accounted for by a specifc commodity or commodity group.

2/ Includes farms earning at least half of their receipts from a combination of wheat, rice, corn, oats, barley, sorghum, soybeans, dry beans, and/or flax.

Information contact: Linda Foreman, e-mail lfarmer@econ.ag.gov

Appendix table 6—Farm business balance sheet, 1993-99F

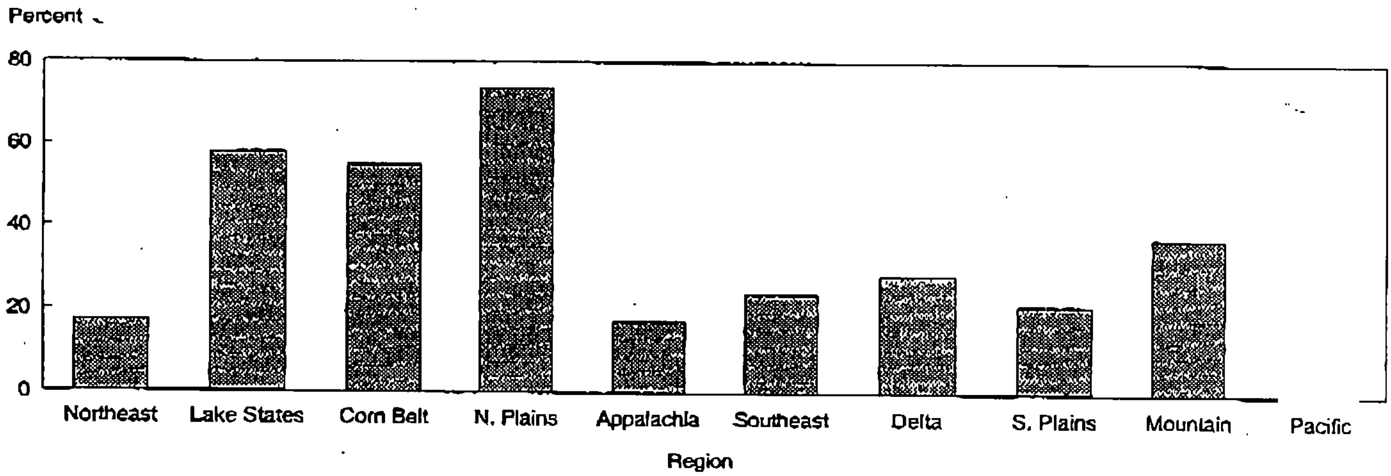
	1993	1994	1995	1996	1997	1998P	1999F
				$ billion			
Farm assets	906.4	938.3	981.9	1,033.9	1,088.8	1,124.7	1,140.3
Real estate	673.7	706.9	755.7	799.5	849.2	891.7	904.1
Livestock and poultry	72.8	67.9	57.8	60.3	66.8	57.0	59.0
Machinery and equipment	86.5	87.5	88.5	88.9	88.1	91.0	90.0
Crops stored	23.3	23.3	27.4	31.7	29.9	30.0	31.0
Purchased inputs	3.8	5.0	3.4	4.4	5.1	5.0	5.2
Financial assets	46.3	47.6	49.1	49.1	49.7	50.0	51.0
Farm debt	142.0	146.8	150.8	156.1	165.4	170.4	169.1
Real estate	76.0	77.7	79.3	81.7	85.4	87.6	86.7
Nonreal estate	65.9	69.1	71.5	74.4	80.1	82.8	82.4
Farm equity	764.4	791.5	831.1	877.8	923.4	954.3	971.2
				Percent			
Ratios:							
Debt to equity	18.6	18.5	18.1	17.8	17.9	17.9	17.4
Debt to assets	15.7	15.6	15.4	15.1	15.2	15.2	14.8

P=preliminary. F=forecast.

Information contacts: For assets – Ken Erickson, (202) 694-5565, e-mail: erickson@econ.ag.gov

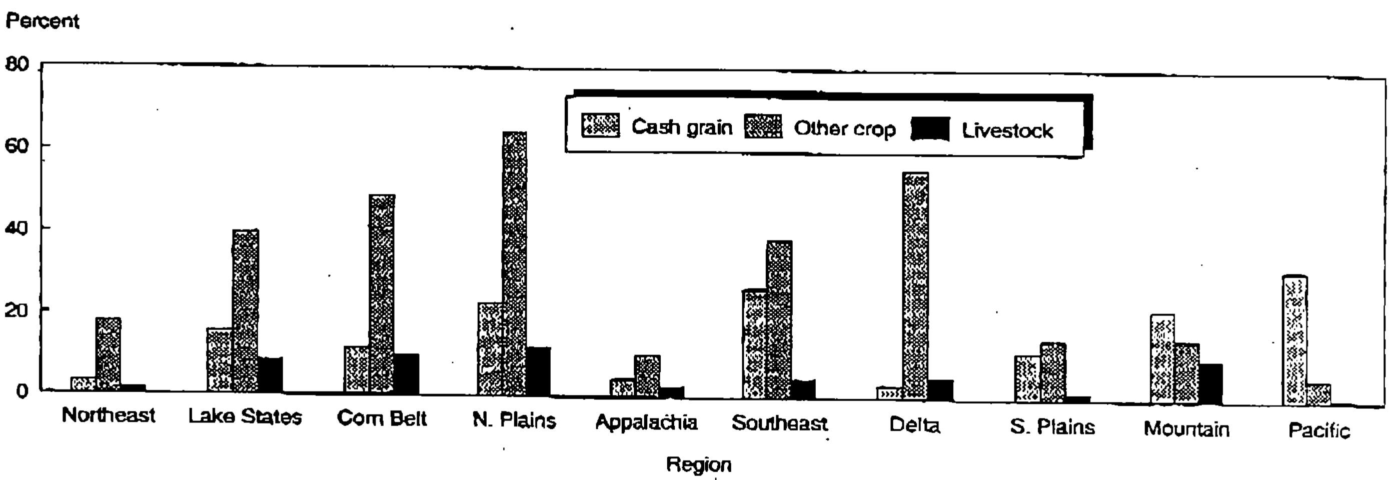
For debt – Jim Ryan, (202) 694-5586, e-mail: jimryan@econ.ag.gov

Figure 10
Percent of farms receiving government payments



Source: 1997 Agricultural Resource Management Study, Economic Research Service, USDA.

Figure 11
Percent of farms receiving CRP and WRP payments



Source: 1997 Agricultural Resource Management Study, Economic Research Service, USDA.

Appendix table 6—Net cash income from farming by size class, 1993-98 1/

Item	$1,000,000 and over	$500,000 to $999,999	$250,000 to $499,999	$100,000 to $249,999	$50,000 to $99,999	$20,000 to $49,999	Less than $20,000	All
	Billion dollars							
Gross cash income								
1993	50.7	26.4	32.6	45.6	22.0	12.4	10.5	200.2
1994	52.3	25.5	29.5	43.3	22.2	13.1	12.3	198.3
1995	60.0	26.3	33.6	43.2	20.1	11.3	11.1	205.5
1996	62.6	33.3	42.8	41.8	16.3	10.8	10.2	217.8
1997	71.1	31.3	36.3	43.5	20.7	12.7	12.4	228.0
1998F	66.6	30.3	37.1	42.5	19.1	11.7	11.4	218.8
Crop receipts								
1993	21.0	10.4	16.3	21.8	9.4	5.0	3.7	87.6
1994	26.7	11.6	15.2	20.1	10.9	4.9	3.7	93.1
1995	25.3	14.4	19.9	21.6	10.7	5.6	3.7	101.1
1996	30.2	16.7	23.4	21.3	7.9	4.4	2.7	106.6
1997	33.4	15.4	19.6	24.0	9.9	6.5	3.3	112.1
1998F	30.7	15.1	20.1	21.2	9.1	5.4	3.2	104.8
Livestock receipts								
1993	28.1	13.9	12.4	17.3	9.2	5.4	3.9	90.2
1994	24.0	12.3	12.1	19.3	9.1	6.3	5.0	88.2
1995	32.5	10.3	11.2	17.7	7.5	4.1	3.7	87.0
1996	30.2	14.5	15.9	16.4	6.7	4.9	4.4	93.0
1997	34.7	14.1	14.0	15.8	8.6	4.6	4.9	96.6
1998F	33.3	13.1	13.9	17.1	7.9	4.6	4.4	94.4
Direct Government payments								
1993	0.6	1.2	2.5	4.5	2.1	1.2	1.2	13.4
1994	0.4	0.7	1.2	2.2	1.3	1.0	1.1	7.9
1995	0.3	0.7	1.4	2.1	0.8	0.8	1.2	7.3
1996	0.6	0.9	1.5	1.9	0.8	0.7	0.8	7.3
1997	0.5	0.8	1.4	2.1	1.0	1.0	0.9	7.5
1998F	0.5	0.9	1.6	2.3	1.0	0.9	1.1	8.3
Cash expenses								
1993	30.6	18.1	21.8	32.5	16.2	10.0	12.0	141.2
1994	33.0	19.1	22.7	33.1	15.1	9.7	14.9	147.6
1995	39.5	17.8	23.4	33.2	14.6	10.0	15.0	153.6
1996	39.3	24.3	30.7	32.0	12.4	8.9	13.8	161.4
1997	50.0	21.4	26.6	31.3	14.1	10.0	13.8	167.2
1998F	38.8	20.7	26.5	34.4	15.7	11.6	18.1	165.8
Net cash income								
1993	20.0	8.3	10.8	13.1	5.8	2.4	-1.5	59.0
1994	19.4	6.5	6.8	10.2	7.1	3.4	-2.6	50.7
1995	20.5	8.5	10.1	9.9	5.4	1.2	-3.8	51.8
1996	23.4	9.0	12.0	9.7	4.0	2.0	-3.6	56.4
1997	21.1	9.9	9.7	12.2	6.6	2.7	-1.4	60.8
1998F	27.8	9.5	10.7	8.2	3.4	0.1	-6.7	53.0

F = Forecast. Numbers are rounded.

1/ Based on U.S. data forecasts completed in August 1998. Figures for 1998 distributed by a three year average of the values from 1995-97. For 1993-97, U.S. figures are distributed by data from the FCRS or ARMS.

Tom Freedman
202-237-7832