NO TIME FOR DELAY

A SUSTAINABLE AGRICULTURE AGENDA FOR THE 2007 FARM BILL

Policy Options to Enhance Economic Opportunity, Environmental Stewardship, and Rural Prosperity

SUSTAINABLE AGRICULTURE COALITION

October 2006

The **Sustainable Agriculture Coalition** (SAC) represents grassroots farm, rural, and conservation organizations from across the country that together advocate for federal policies and programs supporting the long-term economic and environmental sustainability of agriculture, natural resources and rural communities. The national alliance of grassroots groups takes common positions on critical federal food and agricultural policy issues and provides financial support for collective representation before Congress and federal administrative agencies. SAC was established in 1988 and has been deeply involved in policy education, consensus building, and policy option development since that time.

Our positions are based on extensive grassroots input from sustainable and organic farmers and ranchers and from private non-profit organizations working directly with farmers. SAC policy is developed through participatory issue committees that involve SAC member organizations as well as other national and regional sustainable agriculture networks and organizations. The four issue committees are reflected in the titles of the major sections of this document: Farming Opportunities and Fair Competition; Conservation and Environment; Marketing and Rural Development; and Research and Extension.

Sustainable Agriculture Coalition member organizations include:

- Agriculture and Land Based Training Association (ALBA) – *Salinas, CA*
- American Natural Heritage Foundation – *Lake Forest, IL*
- C.A.S.A. del Llano (Communities Assuring a Sustainable Agriculture) – *Hereford, TX*
- Center for Rural Affairs – *Lyons, NE*
- Dakota Rural Action – *Brookings, SD*
- Delta Land and Community, Inc. – *Almyra, AR*
- Future Harvest/CASA (Chesapeake Alliance for Sustainable Agriculture) – *Stevensville, MD*
- Illinois Stewardship Alliance – *Rochester, IL*
- Innovative Farmers of Ohio – *Delaware, OH*
- Institute for Agriculture and Trade Policy – *Minneapolis, MN*
- Iowa Environmental Council – *Des Moines, IA*
- Iowa Natural Heritage Foundation – *Des Moines, IA*
- Kansas Rural Center – *Whiting, KS*
- Kerr Center for Sustainable Agriculture – *Poteau, OK*
- Land Stewardship Project – *White Bear Lake, MN*
- Michael Fields Agricultural Institute – *East Troy, WI*
- Michigan Integrated Food and Farming Systems (MIFFS) – *East Lansing, MI*
- Michigan Land Use Institute – *Traverse City, MI*
- Midwest Organic and Sustainable Education Service (MOSES) – *Spring Valley, WI*
- The Minnesota Project – *St. Paul, MN*
- National Catholic Rural Life Conference – *Des Moines, IA*
- National Center for Appropriate Technology – *Butte, MT; Fayetteville, AR*
- Northern Plains Sustainable Agriculture Society – *LaMoure, ND*
- Ohio Ecological Food and Farm Association – *Columbus, OH*
- Organic Farming Research Foundation – *Santa Cruz, CA*
- Pennsylvania Association for Sustainable Agriculture – *Millheim, PA*
- Sierra Club Agriculture Committee – *Multi-state*
- The Washington Sustainable Food and Farming Network – *Mount Vernon, WA; Cheney, WA*

We welcome inquiries from organizations interested in joining us, and also welcome endorsements of this platform. For further information, please contact:

Sustainable Agriculture Coalition, 110 Maryland Avenue NE, Washington, DC 20002
202-547-5754, www.sustainableagriculturecoalition.org

Sustainable Agriculture Coalition

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- Preface -

This document springs from the collective vision of farm and rural advocates from around the country for a new future for American agriculture and rural communities. This vision is one where a safe, nutritious, ample and affordable food supply is produced by a legion of family farmers who can make a decent living pursuing their trade on the scale they choose, utilize methods and inputs that conserve their resource base and keep healthy their environment, and are recognized for their contributions to the strength and stability of their communities. This document represents a combined effort, emanating from a grassroots base, to articulate changes in agriculture and food policies for the next farm bill to help achieve this vision. This new direction, this new future cannot wait. For too long our federal agriculture and food policies have supported an industrialized system which at its core demands uniformity over quality and caters to the desires of a few over the welfare of the many. We can do better, much better, than the status quo. This document, written by the members of the Sustainable Agriculture Coalition, provides policy makers with the pathway to a better tomorrow for farmers, the rural communities and environment in which they live, and the rest of us who enjoy the fruits of their labor.

We recognize that there are other voices within the agricultural community who are suggesting delaying action on a new farm bill by simply extending the one we have now for an extra period of years. Others suggest a variant on the same theme – write a new farm bill that basically extends the current farm bill for as long as possible with at most minor tweaks. These positions are justified by the proponents in part based on slow progress at the world agricultural trade negotiations and on the challenging nature of the federal budget situation.

We take a very different position. We believe there is no time for delay -- the future of family farming, land stewardship, and rural communities is at stake. No single farm bill and no single policy change will magically solve all problems. But we can do far better than retreat to short-term status quo survival options that keep agriculture limping along but provide no real solutions to the environmental, structure of agriculture, competition, and rural economic problems we face. We can and should embrace serious reform and new initiatives to promote family farms, small communities, and vibrant rural economies while producing healthy food and a healthy environment. We believe the best way to approach trade negotiations and budget pressure is to tackle reform head on and move toward sustainable, long-term solutions to the complex policy dilemmas we face. The new federal farm bill is an excellent place to start on real, forward-looking solutions. We can and should make a significant down payment on a new generation of farm and food policy, and we should grasp that opportunity now, without delay. Current farm bill policy is not doing the job it could to promote economic opportunity, environmental stewardship, and rural prosperity. We can do better! The time to act is now!

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As a nation we can do so much better than the current farm bill. We can do far better than retreat to short-term status quo survival options that keep agriculture limping along but provide no real solutions to the farm and rural problems we face. There is no time for delay -- the time is now to embrace reform and construct policies and programs that truly support our small and mid-sized family farms, protect and conserve our valuable natural resources and environment, and breathe new life into our distressed rural communities. It is with a vision for a sustainable food and farming system that promotes economic opportunity, environmental stewardship, and rural prosperity that we offer a set of specific policy options for the 2007 Farm Bill.

Member organizations of the Sustainable Agriculture Coalition for the past two years have held listening sessions and workshops all across the country with farmers and ranchers, conservationists, and rural and urban citizens with keen interest in food and farming. We found strong support for some of the innovative programs launched by earlier farm bills, programs such as the Conservation Security Program, the Value-Added Producer Grants program, and the Initiative for Future Agriculture and Food Systems research program. We heard pleas to consolidate support for these innovations and to back funding strategies to help them meet their full potential. Practitioners in the field spoke to the need for new programs to encourage new farms, new markets, and new rural businesses. We also heard strong appeals to remove program barriers to a more sustainable farm and food systems.

Our proposed policy options span all the major sections of the farm bill. In our view, all sections of the farm bill hold significant opportunities for crafting cost-effective, high-impact policies that can increase farm profitability and improve the health of individuals, communities, and the environment. Our goals are to increase farming opportunities, revitalize family farming, restore competition, reward stewardship, stimulate new markets, promote rural entrepreneurship, and spur innovation.

To ensure **farming opportunities and fair competition**, the farm bill should encourage and support a new generation of farmers and ranchers; reform commodity, credit and crop insurance programs to support family farms and the environment; and create and maintain fair and competitive agricultural markets. Some of our proposed policy options for the reform of current policies and new initiatives include:

- Reauthorize and fully fund the Beginning Farmer and Rancher Development Program and create a new Individual Development Account pilot program of matched savings funds for new farmers.
- Strengthen the Beginning Farmer and Rancher Down Payment Loan Program and continue all existing farm loan fund preferences and incentives for beginning farmers and ranchers.
- Close the numerous commodity program payment cap loopholes to stop abuse and return to the idea of moderate, targeted farm support rather than unlimited payments that subsidize farm consolidation.
- Enact a "sodsaver" provision to stop subsidizing the conversion of native prairie and prime grasslands to cropping.
- Create within crop insurance an accessible and affordable nationwide whole farm revenue insurance option that rewards diversification, and eliminate discriminatory crop insurance measures pertaining to organic farmers.
- Amend the Agricultural Fair Practices Act to prohibit any firm from refusing to deal with a producer for belonging to or attempting to organize an association of producers or cooperative, and amend the Packers and Stockyards Act to eliminate unreasonable price preferences that discriminate against small and mid-sized livestock operations.

In the area of **conservation and the environment**, the farm bill should help integrate successful revitalization of family farms and rural communities with environmental and natural resource conservation. This is central to our sustainable future. We need to continue to incorporate environmental objectives into agriculture policy, making sure environmental protection and resource conservation become priorities in our production systems. The following are some of our suggested reforms and new proposals:

- Retain, streamline and fully fund the Conservation Security Program (CSP) as the primary agriculture stewardship incentive program, available to producers nationwide.
- Coordinate the Environmental Quality Incentives Program (EQIP) with the CSP to improve local conservation delivery and restore EQIP provisions that help ensure a net positive effect on the environment.
- Expand the Cooperative Conservation Partnership Initiative to support special projects for multiple producers to address specific area-wide resource and environmental concerns and community development opportunities.
- Increase the Conservation Reserve Program's emphasis on high impact conservation buffer enrollments while instituting a new permanent easement option for marginal lands with high importance as wildlife habitat.
- Establish sustainability criteria to guide all conservation and energy title programs that are designed to develop and promote the use of agriculturally-based renewable energy.

The **marketing and rural development** sections of the farm bill should spur rural revitalization by fostering new farm and non-farm enterprises. Existing and potential entrepreneurs need new tools to access the emerging niche and value-added markets. There must also be adequate support to local and regional organizations offering the technical assistance, education, and training necessary for the creation of successful local businesses and strong rural communities. Our proposals in this area of include:

- Reauthorize the Value-Added Producers Grant program with mandatory funding of at least $50 million annually, prioritizing projects that strengthen the profitability of small and medium-sized farms and ranches and adding a new grant component to develop value chains with clear and transparent social, environmental, fair labor and fair trade standards.
- Increase funding to $25 million for the National Organic Certification Cost-Share Program, and create a new National Organic Transition Support Program designed to provide technical and financial assistance for the adoption of organic farming-based conservation practices and systems.
- Expand the Farmers Market Promotion Program with mandatory funding of $20 million annually.
- Improve and expand community-based food and nutrition programs and initiatives including the Farmers Market Nutrition Programs, Farm to Cafeteria Program, and Community Food Projects Program.
- Create a $50 million a year Rural Entrepreneurs and Micro-Enterprise Program to provide grants to develop training, services, and credit for Micro-Enterprise programs that support new rural entrepreneurs.
- Establish a $75 million a year Community Entrepreneurial Development Program to offer grants to collaborating communities to create regional initiatives for entrepreneurial development.

Agricultural research and extension are key investments in the future of our food and farming system and the vitality of rural America. The 2007 Farm Bill is an opportunity to provide resources to re-focus research and extension programs to support sustainable agriculture systems, innovative marketing efforts and vibrant rural communities. Our proposed research policy options for the next farm bill include:

- Create a Farm, Food, and Rural Transitions Competitive Grants program to provide mandatory funding for integrated, outcome-based research, education and extension on critical issues *(replacing IFAFS)*.
- Fund organic research programs at a level that represents a fair share of USDA resources, including at least $15 million annually for Integrated Organic Program competitive grants and no less than $25 million annually for a new National Program for Organic Research within USDA's Agricultural Research Service.
- Establish a new regionally administered competitive grants program for Rural Entrepreneurship and Enterprise Facilitation with at least $20 million in annual funding.
- Provide $25 million annually in mandatory funding for the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Competitive Grants Program.

Federal policies and programs play an important role in our farm and food system. The next iteration of the farm bill will help determine whether we move toward or away from sustainability. By enacting these proposals, we can begin to attain a vibrant food and agriculture system and strong rural economy that will serve us all for many generations to come.

Part I: Farming Opportunities and Fair Competition

The family farm as the nucleus of American agriculture is in jeopardy. The US has moved to a significant extent to a dual system of agriculture. At one end of the spectrum are small, often part-time farms, producing a limited amount of all farm products and depending primarily on non-farm income for their livelihood. At the other end are very large farms that account for a majority of all farm product sales. This group is small -- just over one percent of all farms account for nearly half the total value of farm product sales. In the middle, and hanging in the balance, are full-time family farms, intermediate in size, which still account for a sizable share of total sales.

The family farm matters to the viability of rural communities. Family farmers buy most of their inputs from local suppliers. They sell most of their products in local or regional markets. Many of the business enterprises in rural towns and small cities are farm-connected. A system of economically viable, midsize, owner-operated family farms contributes more to communities than systems characterized by mega-farms with hired managers and large numbers of farm laborers with below average incomes and little ownership or control of productive assets. Replacing midsize farms with big farms reduces middle class entrepreneurial opportunities in farm communities, at best replacing them with wage labor. The result is harmful to society.

The concentration of farms and ranches into ever larger units and the decline of agricultural self-employment are not the inevitable results of inexorable forces of nature or the marketplace. In fact, self-employment is growing as a percentage of total employment in the United States. Agriculture is the exception. Rather, concentration in agricultural production is driven by decisions – policy choices and biases – that can be reversed.

The family farm system can be strengthened by increasing farming and ranching opportunities, restoring fair competition in the marketplace, and improving the viability and sustainability of small and moderate-sized family farms and ranches. To that end, critical reforms are needed to the current array of commodity, credit, crop insurance, conservation, research, extension, and other farm-related programs.

The following proposed options do not represent comprehensive reform of the current system or a total overhaul. They are, however, an attempt to fix some of the biggest problems associated with current programs and to seize new opportunities. These proposals will strengthen small and mid-size family farms, expand the number and diversity of sustainable farms and ranches, increase farming opportunities, and restore some elemental fairness and competition to the marketplace.

A. New Farmers and Ranchers

Farmers over the age of 65 years outnumber those below the age of 35 by more than two to one. A majority of farmland and farm business assets are owned by individuals over the age of 65. Over the next two decades, an estimated 400 million acres of agricultural land will be transferred to new owners and will either remain in production or be converted to non-agricultural uses.

There is an emerging generation of farmers who are best identified by the diversity they represent. Unlike previous generations of farmers who primarily came from multi-generation farm families, this new generation includes college educated young people who have chosen farming as their first career, former farm workers, people from non-farming backgrounds who have worked for years in other careers, and Hispanic, Somali, Hmong, and Eastern European families, including immigrants. They are both men and women in about equal numbers. This new generation of farmers also includes established farmers who are looking for ways to transition their current farming system into more sustainable and profitable systems.

This more diverse new generation of farmers has very different needs than previous generations. Current farm policy is clearly deficient when measured by its ability to help foster this new generation of farmers and needs to be changed. The future health and vitality of agriculture, the food system and rural communities will depend on public policies that encourage this new generation to work in agriculture and manage land sustainably.

For people getting started in farming and ranching, the challenges to farm entry and success include the high cost of land and difficulties obtaining credit and insurance, especially for diversified and more sustainable farm operations. Furthermore, given the non-traditional background of some of these emerging farmers there is a critical shortage of training and on-farm mentoring opportunities. Consequently, it is very difficult for them to obtain the management, marketing and communications skills necessary for success in entrepreneurial agriculture.

Immigrant and refugee farmers—the fastest growing group of people among this new generation of farmers in the United States—face special difficulties and cultural barriers, including understanding how to buy or lease land, how to obtain basic farming resources, and how to access public and private agricultural services and programs. Public policy can and should help strengthen the capacity of immigrants to farm successfully, helping to increase new farming start-ups and to advance a more sustainable farming and food system.

As new markets develop for products raised with strong environmental and humane standards on small and moderate-sized family farms, some farmers and ranchers are transitioning from conventional production, forgoing the attempt to compete with low-cost, high volume commodity producers and instead employing new sustainable production and marketing systems aimed at these emerging and growing markets. Addressing the special needs of these "re-beginning" producers is also a critical component to any strategy that attempts to revitalize the family farm system of agriculture.

To ensure the future vitality of US farming, older farmers also need assistance with farm business succession and retirement planning. They are also looking for ways to share their knowledge and experience with this new generation of farmers and ranchers.

The 2007 Farm Bill should include a major, cross-cutting initiative that addresses in a comprehensive fashion the needs of a new generation of beginning farmers and ranchers. The "New Farmer and Rancher" initiative should provide new farmers and ranchers with tools they need to successfully enter farming or ranching and to be good stewards, innovative and entrepreneurial, and better able to respond to the rapidly changing demands of the marketplace.

1. Beginning Farmer and Rancher Development Program

ISSUE

The Beginning Farmer and Rancher Development Program (BFRDP), authorized in Section 7405 of the 2002 Farm Bill, is the first USDA program other than farm credit/debt financing programs targeted specifically to beginning farmers and ranchers. This competitive grants program, to be administered by USDA's Cooperative State Education and Extension Service (CSREES), will fund education, extension, outreach and technical assistance initiatives directed at new farming opportunities.

The BFRDP is targeted especially to collaborative local, state, and regionally based networks and partnerships to support financial and entrepreneurial training, mentoring and apprenticeship programs, "land link" programs that connect retiring and new farmers, innovative farm transfer and transition practices, and education and outreach activities to assist beginning farmers and ranchers. Such networks and partnerships may include cooperative extension, community-based non-governmental organizations, relevant USDA and state agencies, universities, community colleges and other appropriate partners. Not less than 25 percent of funds appropriated for this program are targeted to limited resource and socially disadvantaged beginning farmers and ranchers and to farm workers seeking to become farmers or ranchers. There is a 25 percent cash or in-kind matching requirement. Grant terms may not exceed three years.

The program also establishes education teams, made up of representatives of colleges and universities, cooperative extension, non-governmental organizations, and agencies, whose task is to develop curriculum and educational modules geared to different regions and farming systems for use in a variety of educational settings and available online from USDA. The curriculum and educational modules could include segments on new markets, new crops, and value-adding enterprises.

In the Senate-passed version of the last farm bill, $15 million a year in mandatory funds was set aside for the BFRDP, but that funding was unfortunately removed during final conference committee consideration. To date no discretionary funding has been requested by the Administration or provided by Congress during the annual appropriations process, and so this incredibly important program remains on the books but unfunded.

PROPOSAL

As part of the 2007 Farm Bill's New Farm Initiative, the Beginning Farmer and Rancher Development Program should be reauthorized and granted at least $20 million a year in annual mandatory farm bill funding. Funding for the curriculum development teams should be capped at no greater than 20 percent of the total funding. These teams should include an emphasis on financial literacy and preparing beginning farmers to access credit. Language should be added to ensure regional balance in the allocation of funding. Priority should be given to partnerships and collaborations that include non-governmental and community-based organizations with expertise in new farmer training and outreach. Refugee and immigrant farmers should be specifically included in the list of eligible groups eligible for the 25 percent funding set-aside. A new section on grant evaluation criteria should be added and include relevancy, technical merit, expertise and track record of the principal partners, participatory evaluation, outcome-based reporting, and plans for communicating findings and results beyond the immediate target audience.

2. Individual Development Accounts for a New Generation of Farmers and Ranchers

ISSUE

The first Individual Development Account (IDA) program specifically targeted to beginning farmers is currently underway in California. This Beginning Farmer and Rancher IDA uses special matched savings accounts to promote a new generation of farmers and ranchers by assisting those of modest means to establish a pattern of savings. The account proceeds may be used toward capital expenditures for a farm or ranch operation, including expenses associated with purchases of land, buildings, equipment, infrastructure, or livestock, or toward acquisition of training. The Beginning Farmer and Rancher IDA program is patterned after the more urban-influenced IDA programs sponsored by the Department of Health and Human Services which are targeted at home buying or business development.

PROPOSAL

The 2007 Farm Bill should institute a Beginning Farmer and Rancher Individual Development Account pilot program. The program would be administered through the Farm Services Agency and include at least 15 state pilot programs with authority for each to enroll up to 25 participants. The program would provide up to $10,000 per year for each account and be contingent on a local match of 20 percent. Up to 20 percent of total funding would be for implementation, outreach, and financial literacy training. The Farm Bill should provide $4.5 million per year for 5 years for the IDA pilot program. The program should include an annual and a 5-year evaluation process.

3. Beginning Farmer and Rancher Down Payment Loan Program

ISSUE

The Down Payment Loan Program was established by the 1992 Agricultural Credit Act and implemented by USDA beginning in 1994. This special loan program reflects the dual realities of increasingly scarce federal resources and the significant cash flow requirements of most new farm operations. It combines the resources of the Farm Service Agency, the beginning farmer, and a commercial lender or private seller. Because the government's share of the total loan cannot exceed 40 percent of the price, limited federal dollars can be spread to more beginning farmers than is the case with traditional 100 percent government financed direct loans.

Seventy percent of total appropriated funds for direct farm ownership (real estate) loans are targeted to beginning farmers and ranchers. In turn, sixty percent of these funds are targeted to the down payment loan program until April 1 of each year. Unused guaranteed operating loan funds can also be transferred to fund approved down payment loans beginning August 1 of each year.

Under the program, FSA provides a down payment loan to the beginning farmer of up to 40 percent of the farm's purchase price or appraised value, whichever is less. This loan is repaid in equal installments for up to 15 years, at a four percent interest rate, and is secured by a second mortgage on the land.

The beginning farmer must provide an additional 10 percent of the purchase price in cash as a down payment. The total purchase price or appraised value, whichever is less, currently cannot exceed $250,000. The remaining 50 percent of the purchase price must be financed by a commercial lender or a private seller on contract. This private financing may also be backed by assistance from a state beginning farmer program, which can frequently provide lower interest rates and longer repayment terms than other loans from commercial lenders. The loan or contract must be amortized over a 30-year period but can include a balloon payment due anytime after the first 15 years of the note.

A commercial loan (for either farm ownership or operation) made to a borrower using the Down Payment Loan Program may be guaranteed by the FSA up to 95 percent (compared to the regular 90 percent) of any loss, unless it has been made with tax-exempt bonds through a state beginning farmer program.

Throughout the 1990s this program was quite successful in creating new farming starts, though loan making activity has slowed in recent years as interest rates have remained fairly low. From its inception to midway through the 2006 fiscal year, the Down Payment Loan Program has made loans to help 2,728 new farmers purchase their first land, for a loan volume of $124 million.

In the 2002 Farm Bill, Congress, on the advice of the USDA Beginning Farmer and Rancher Advisory Committee, increased the USDA share of these partnership loans from 30 to 40 percent and increased the length of the government loan period from 10 years to 15 years.

Unfortunately, the last farm bill did not enact the additional proposed reform of reducing the FSA interest rate for Down Payment loans from the current four percent to a floating rate set at a fixed percentage under the regular FSA loan rate (e.g., four percent under regular direct farm ownership rates). In the recent run of low interest rate years, the Down Payment Loan Program differential has been too small to make much difference and therefore has reduced the attractiveness of the partnership approach. As a result, the vast majority of direct loans have returned to the traditional 40-year, 100 percent government financing approach or to 50/50 partnership loans between FSA and banks.

PROPOSAL

The 2007 Farm Bill should make several adjustments to the Down Payment Loan Program, including, most importantly, setting the interest rate at four percent below the regular direct farm ownership interest rates or at one percent, whichever is greater. In addition, the maximum allowable farm sales price should be (a) changed to maximum allowable portion of farm sales price eligible for the down payment loan, and (b) increased from $250,000 to $400,000 to reflect market realities.

The Farm Bill should direct FSA to utilize the down payment program or the 50/50 joint financing participation loans as the first choice option for real estate loans in all regions of the country. To provide FSA with greater flexibility to respond to fluctuating demand, the funding set-aside for Down Payment loans should be combined with joint financing 50/50 partnership loans. Currently, at least 70 percent of total direct farm ownership loan funds are reserved for beginning farmers and ranchers, and 60 percent of that 70 percent is reserved for Down Payment loans. We propose the 70 percent target continue, but with at least 70 percent of that total (i.e., roughly half of total DFO loan funds) in turn reserved for the combination of Down Payment loans and joint financing 50/50 partnership loans, through April 1 of each fiscal year.

4. Loan Fund Set-asides and Inventory Land Sales Preferences

ISSUE

The 1990 and 1996 Farm Bills and the 1992 Agricultural Credit Act introduced a number of loan fund set-asides and preferences for beginning farmers and ranchers. For instance, 70 percent of all direct farm ownership loan funds appropriated by Congress each year are designated for beginning farmers and ranchers, with 60 percent of that total designated for Beginning Farmer and Rancher Down Payment loans. For direct operating loans, the set-aside is 35 percent. Guaranteed ownership and operating loan funds targets are 25 percent and 40 percent, respectively. Each of these loan set-asides are released for other types of borrowers at set times during the year if the demand from beginning farmers and ranchers does not fully subscribe the money. Guaranteed operating loan funds that are unused toward the end of each fiscal year are transferred to beginning farmer and rancher down payment and other real estate loans.

With respect to property obtained by USDA via foreclosure, the Farm Service Agency advertises acquired farm property within 15 days of acquisition. Eligible beginning farmers and ranchers are given first priority to purchase these properties at the appraised market value for the first 135 days after acquisition. If more than one eligible beginning farmer or rancher offers to purchase the property, the buyer is chosen randomly.

PROPOSAL

All of the existing statutory loan fund set-asides and inventory preferences should be continued in the 2007 Farm Bill, but with one modification. To provide FSA with greater flexibility to respond to fluctuating demand, the funding set-aside for down payment loans should be combined with joint financing 50/50 partnership loans. As now, at least 70 percent of total direct farm ownership loan funds are reserved for beginning farmers and ranchers, but at least 70 percent of that total (i.e., roughly half of total DFO loan funds) should in turn reserved for the combination of down payment loans and joint financing loans through April 1 of each fiscal year.

5. Beginning Farmer Land Contract Program

ISSUE

The 2002 Farm Bill established a Beginning Farmer Land Contract pilot program to allow USDA to provide loan guarantees to sellers who self-finance the sale of land to beginning farmers and ranchers. The pilot program is currently operating in PA, WI, IN, IA, MN, ND, NE, OR, and CA. In each state, up to five private contract land sales between a retiring and beginning farmer may be guaranteed under the terms of the pilot project.

The program is structured to provide the seller of the land a “prompt payment” guarantee. The guarantee would cover two amortized annual installments or an amount equaling two amortized annual installments. The guarantee also covers two years of taxes and insurance. The guarantee stays in effect for 10 years.

The buyer of a farm or ranch to be guaranteed must be: (a) a beginning farmer or rancher with at least three but not more than ten years experience in farming or ranching; (b) be the owner and operator of the farm or ranch when the contract is complete; (c) have an acceptable credit history demonstrated by satisfactory debt repayment; and (d) be unable to obtain sufficient credit elsewhere without a guarantee to finance actual needs at reasonable rates and terms. The purchase price of the farm or ranch to be acquired cannot exceed the lesser of $500,000 or the current market value. The buyer must make a down payment of 5 percent of the purchase price of the land.

PROPOSAL

The 2007 Farm Bill should make the Land Contract pilot program part of permanent law as a regular nationwide program option. The current two-year limit on payment guarantee created by regulation should be extended to three years. Consideration should also be given to providing the land seller with an option of choosing either the three-year payment guarantee or a standard 90 percent guarantee of the outstanding principle.

6. Conservation and Stewardship Incentives for New Farmers and Ranchers and Socially Disadvantaged Farmers and Ranchers

ISSUE

In Section 2004 of the conservation title of the 2002 Farm Bill, the Secretary of Agriculture is authorized to provide special incentives to beginning farmers and ranchers and limited resource producers to participate in federal agricultural conservation programs. This provision has resulted in several limited offerings by NRCS through farm bill conservation programs, including a funding set-aside under the Conservation Innovation Grants program and ranking points for farm transition planning under the Farm and Ranch Land Protection Program.

The last farm bill also established a 15 percent cost-share bonus for beginning farmers and ranchers and limited resource farmers in the Conservation Security Program (CSP) and the Environmental Quality Incentives Program (EQIP).

The intent of these provisions is to help achieve two important public policy goals: help new farmers and ranchers get started while encouraging them from the outset to adopt whole farm conservation plans and effective conservation systems. Adoption of sustainable systems is far easier at the beginning of an operation's history than later on once a system is in place at considerable cost and then needs to be changed or retrofitted.

PROPOSAL

The 2007 Farm Bill should continue and strengthen the cost share differential for beginning farmers and ranchers in Environmental Quality Incentive Program (EQIP) and Conservation Security Program (CSP) by clarifying that the cost share rate for beginning farmers and ranchers must be without exception at least 15 percent greater than the underlying regular rate for a particular practice, and should in general be set at the 90 percent rate. The same cost share differential should also apply to socially disadvantaged farmers.

The 2007 Bill should also continue but strengthen the general special incentives authority. The new bill should direct USDA to:

- Provide strong whole farm, total resource management conservation planning assistance through the establishment of dedicated funding for the development of cooperative agreements between NRCS, Extension, non-governmental organizations, and private technical service providers with appropriate expertise in addressing the needs of new and socially disadvantaged farmers and ranchers.

- As part of this conservation planning assistance effort, include technical assistance and training specifically on sustainable agricultural farming practices and systems that maximize the use of on-farm biological resources, the application of skilled management and labor by the operator, and soil-building, resource-conserving production techniques.

- Offer a financial incentive or bonus for beginning and socially disadvantaged farmers and ranchers to develop whole farm/ranch resource management system conservation plans as part of their participation in CSP or EQIP.

- Provide a substantial number of ranking points for beginning and socially disadvantaged farmers and ranchers within each and every farm bill conservation program that uses ranking systems to determine enrollment.

- Create an incentive to encourage landowners to rent to beginning and socially disadvantaged farmers and ranchers on a long-term, multiyear basis in connection with adoption and maintenance of conservation structures and management practices and systems through CSP, Grassland Reserve Program (GRP), or any other programs featuring long-term conservation contracts.

- Continue to encourage farmland preservation initiatives that ensure continuity of use as working farmland through advance transition planning.

The Conservation Reserve Program (CRP) should also be part of the new farmer and rancher conservation package. Not all CRP contract holders will attempt to renew or extend their contracts. For CRP land with good potential for returning to production using sustainable grazing practices or fully compliant conservation cropping systems, USDA should provide for special arrangements between existing owners and beginning farmers and ranchers. Incentives for sales to beginning farmers and ranchers should include a special transition period several years prior to the end of the CRP contract during which the beginner could start making conservation and land improvements. In the final two years of the contract, leasing to the beginning farmer could begin, while the CRP rental payments to the contract holder would continue for the length of the original term, serving as an incentive to work with the beginner rather than to simply rent or sell the land to the highest bidder. This would secure a dual public purpose – preserving much of the conservation value while fostering new farming opportunities.

7. Targeted Risk Management Education for Beginning and New Farmers

ISSUE

In implementing its risk management education and partnership programs, the Risk Management Agency (RMA) and the Cooperative State Research, Education, and Extension Service (CSREES) have begun to fund some projects aimed specifically at beginning, immigrant and other new farmers. These efforts should be continued and accelerated. The Federal Crop Insurance Act (FCIA) specifically authorizes an ongoing education program managed by RMA and an ongoing partnership program for risk management education managed by CSREES. Both programs receive $5 million a year in mandatory funds. Risk management education in both cases includes a focus not only on risk management products (crop insurance, futures, options, forward contracts, etc.) but also on crop and enterprise diversification, natural resource and environmental planning, accessing new and value-added markets, debt reduction and asset-building strategies, and other methods to manage risk. These important tools need to reach new entrants into farming as they get started, and the tools themselves need to be adapted or expanded to meet the specific needs of new farmers.

PROPOSAL

The 2007 Farm Bill should amend the Federal Crop Insurance Act to include within the existing risk management education and partnerships programs a special emphasis on risk management strategies and education and outreach specifically targeted at beginning farmers and ranchers, immigrant farmers and ranchers who are attempting to become established producers in this country, farmers and ranchers who are preparing to retire and are using transition strategies to help new farmers and ranchers get started, and new and established farmers and ranchers who are converting their production and marketing systems to pursue new markets. In addition, language should provide for an emphasis on modifying or adapting the actual risk management tools to the unique needs of beginning and socially disadvantaged farmers and ranchers.

8. Dedicated Research Funding for a New Generation of Farmers and Ranchers

ISSUE

Very little federal research funding currently is dedicated to new farming opportunities, farm transfer and succession, farm transition and entry, or farm viability issues. In relation to the upcoming transfer of some 400 million acres of land over the next two decades and the barriers to entry faced by new farmers, including those from socially-disadvantaged groups, the funding for research and extension on these issues seems paltry indeed. The emerging generation of farmers includes both people with farm backgrounds and those without. Of those without farm backgrounds, many are coming to farming as a second or third career change. They are ethnically and culturally diverse and interested in a wide-range of crop and livestock systems. Many of these new farmers do not have the same family or community connections that have served to launch previous generations of farmers. There is a large need for research on and development and diffusion of models for new farmer training, land transition, making rental land accessible as an entry option, lower risk production start-up options, and alternative financing throughout the nation for an increasingly diverse new generation of farmers and ranchers.

PROPOSAL

The 2007 Farm Bill should include language in the research title making farm transfer and farm entry issues and the needs of beginning, immigrant, and socially disadvantaged farmers and ranchers, a priority research area. The new farm bill should also incorporate language specifically designating a new national program area for these issues within the national competitive grants program.

B. Commodity Program Reform

Programs to regulate the production of the major non-perishable field crops have been at the very center of farm bills dating back to the New Deal era. In recent years, many of the original goals of commodity programs have been abandoned and replaced with outright production subsidies that encourage overproduction, low prices, and an export expansion orientation. This dramatic shift has intensified debate over the future of commodity programs.

We share the view of many that the current set of programs has serious unintended negative consequences. They subsidize farm consolidation and the disappearance of mid-sized family farms, raise land prices well beyond market levels, reduce farming opportunities for a new generation of farmers, encourage over-intensive production resulting in polluted runoff and lost biodiversity, and enable the growth of industrial animal feeding facilities at high cost to the environment, public health and animal well being.

Increasingly, US commodity policy is also cause for claims by farmers in developing countries of unfair dumping of US farm products at low prices that discourage agricultural development and hunger reduction abroad. More recently, serious questions have been raised about the lack of congruity between commodity programs and public health and nutrition priorities. Other sectors of agriculture, including livestock and fruit and vegetable producers, are also raising important equity considerations about the division of farm bill resources. Even within the supported commodity sector, farm leaders increasingly question the wisdom of programs that offer protection only against price swings without also addressing production and yield shortfalls due to natural disasters.

We take heart in the fact there is an emerging consensus that the current regime needs to change, with the real debate now centered on timing – now or years into the future – and on substance – improved forms of price, revenue or income support or completely new approaches. We believe farm program policy should foster agricultural and food systems based on family farms that nurture and sustain rural communities and the environment, promote a diversified and healthful food supply, foster increased farming opportunities and widespread ownership of land, and support, or at least not detract from, strong agricultural development and hunger reduction strategies internationally.

In keeping with the evolutionary nature of farm policy, our proposals focus on addressing the most serious negative consequences of current policy in this next farm bill iteration. We propose comprehensive payment limitation reform, full planting flexibility, constraints on the most egregious production stimulants, improved and expanded conservation compliance, a full-scale nationwide commitment to stewardship payments through the Conservation Security Program, and an biomass conversion option.

1. Payment Limitation Reform

ISSUE

Originally intended to provide a basic level of price and income support for family farmers, the current commodity payment system has promoted overproduction and low commodity prices, misuse and overly intensive use of natural resources, and overvalued land prices. While a variety of commodity program reforms are needed to reduce or eliminate the negative impacts of the current production incentive system, from the standpoint of strengthening the family farm system of agriculture, the single most effective first step Congress could take in the farm bill is to cap subsidies to mega farms. The Senate overwhelmingly approved payment limitation reform during debate on the last farm bill, but unfortunately the House did not and the Senate provision was not ultimately included in the final bill.

Unlimited production subsidies are used by mega farms to bid land away from small and moderate-scale farms, leading to farm consolidation and the slow demise of family-scale agriculture. Large, aggressive operations use their payments to acquire more land, in the process bidding up land prices and increasing carrying costs – cash rents, land payments, and property taxes -- for all farmers. As a result, any positive affects of farm program payments are offset by increased production costs and so do nothing to improve the income of farmers except on land that is owned and paid for. The commodity payment system is, however, helping destroy mid-size farms, limit the number of young farmers entering farming, and undermine the rural communities in which all farmers have a stake.

Most farmers are not well served by current law. Only the very largest farms benefit from the lack of any real limits on marketing loans gains and the loopholes that ensure that the nominal limits on direct and counter cyclical payments are also meaningless. Eighty-one percent of farmers nationwide, including 70 percent of southern farmers, support more effectively targeting payments to small and mid-size farms, according to an Extension Service poll prior to the last farm bill.[1] A new survey of farmer perspectives taken in advance of the 2007 Farm Bill reveals that small, medium and large-scale farmers in all regions of the country strongly support getting rid of major payment limitation loopholes and a majority of farm operators also strongly support reducing the payment caps even further.[2]

Our reform proposal would leave farmers free to farm as much land as they want. Those who choose to farm big would still receive bigger payments than most farmers, but they would not be offered unlimited federal assistance to expand at the expense of their neighbors.

Recent budget cuts have taken away significant funding from conservation programs and eliminated most of the new money invested in rural development by the 2002 farm bill. Capping payments to mega farms is a much more strategic way to deal with federal budget constraints than cutting programs that offer a future to rural America. Without effective payment limitations, there simply will not be sufficient funding available for programs that protect the land and offer hope to rural America.

PROPOSAL

We support effective, comprehensive payment limitation reform. There are a variety of options to achieve meaningful reform. The simplest approach to reform would be to retain the nominal payment caps contained in current law, but close the big loopholes that have allowed some farms to collect seven-figure government checks each year. Closing the loopholes would reduce incentives to overproduce, overbid land prices, and overtax natural resources.

This option would cap per farm commodity program payments at not more than $180,000 a year. It would thwart fraud and abuse and enhance economic opportunities in farming, while adopting the major reform provisions recommended by the US Government Accountability Office, the USDA Payment Limitation Commission, and leading reform proponents. The key components of this simple, yet effective option are:

Three-Entity Rule -- The three-entity rule which allows program participants to double the nominal payment limitations by collecting payments as an individual and also through two additional legal entities would be repealed. Mega-payments would no longer flow to those who can hire the best lawyers to create "paper farms" to double their takings.

Direct Attribution of Payments -- Payments would be tracked through business and legal entities and partnerships directly back to the individual who is the ultimate beneficiary. All payments would count toward an individual's limit, whether received directly or through a corporation or other type of entity. All beneficial interests in an entity would be subject to payment limitations, eliminating the current practice of creating "paper" farms for the purposes of exceeding the limits.

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[1] Lubeen, *The 2002 Farm Bill: US Producer Preferences for Agricultural, Food and Public Policy*. Oak Brook, IL: Farm Foundation, September 2001.

[2] Lubeen, *Agriculture, Food and Public Policy Preference Survey*. Oak Brook, IL: Farm Foundation, September 2006.

Certificates and Forfeitures – Under current USDA regulations, there is absolutely no cap on marketing loan gains or loan deficiency payments because if the nominal levels are approached, the benefits can still be pocketed, without limit, through the use of commodity certificates or by forfeiting the commodities to the government. To close this abusive loophole, gains derived from the use of commodity certificates or forfeiture of loan commodities to the government must be counted against the limit.

Active Personal Management – Current law attempts to target payments to working farmers. However, as demonstrated by a 2004 Government Accountability Office (GAO) Report, the lack of a well defined active management test in the law and regulations constitutes a major loophole facilitating huge payments to non-targeted individuals, partnerships, and corporations.[3] Any serious reform option must require that payment recipients personally provide management on a regular, substantial, and continuous basis through direct supervision and direction of farming activities, labor and on-site services. The combined labor and management standard should be no less than 500 hours annually or 50 percent of the commensurate share of the required labor and management.

Landowner Exemption -- Landowners who rent land to a producer on a crop share basis should remain exempt from the "actively engaged" rules provided their payments are commensurate to their risk in the crop produced.

Payment Limits – Closing the loopholes is the most critical reform. On that firm foundation, it is then possible to set real dollar limitations. Leaving the nominal limits exactly where they are under current law, the total combined annual limit for a farm family would be $180,000. Direct payments, counter cyclical payments, and marketing loan gains/loan deficiency payments would be capped respectively at $40,000, $65,000, and $75,000 annually.

Penalties for Fraud and Abuse – A final element of any reform package are reasonable penalties against fraud and abuse. Actions to evade payment limits should result in the persons involved becoming ineligible for the programs for a five-year period.

2. "Sodsaver" – Protecting America's Prairies

ISSUE

America's prairies are vanishing. Just two percent of America's historic tall grass prairies are still intact, and we continue to lose our short grass and mixed grass prairies. The original tall grass prairies were located primarily in the highly productive Corn Belt, and most of this vast ecosystem has ceased to exist. This is not the case, however, for the short grass and mixed grass prairies. Located further north and west, with colder and drier climates and more marginal soils, these prairies were mostly used for grazing animals during early settlement.

Under current farm program rules, taxpayer subsidies are provided when landowners plow up valuable native prairies and convert the land from pasture for livestock grazing into crop production, provided a soil conservation plan is developed and implemented. Grassland losses to crop conversion from 1985-2005 in the prairie pothole region of Montana, North Dakota and South Dakota are estimated at nearly three million acres. Recent USDA data suggest that as much as 100,000 acres have been converted each year in the Dakotas alone since passage of the 2002 Farm Bill. The Dakotas are part of the Missouri Coteau region, generally regarded as the most productive region for ducks and shore birds in North America.

Federal farm programs provide substantial risk protection and production subsidies to crop producers who convert grassland. Commodity payments (direct, counter cyclical and loan deficiency payments), disaster payments, and heavily-subsidized crop insurance can make crop production economically viable even if consistent good yields are never achieved on that converted land.

[3] *Farm Program Payments: USDA Needs to Strengthen Regulations and Oversight to Better Ensure Recipients Do Not Circumvent Payment Limitations*, US Government Accountability Office, GAO-04-407, April 30, 2004.

The trend toward converting grassland to crop production has many causes, including recent advances in no-till drills, genetically modified crops, and more effective herbicides. Even with the technological advances, it is questionable whether much of this crop production on very marginal land would take place without the federal support and incentive programs in place. Especially at times when the cattle market drops, crop and insurance subsidies can provide a substantial artificial advantage to crop producers to compete in the market to rent or buy grassland and native prairie. The cattle industry does not benefit from direct government production subsidies or crop insurance.

Under the terms of the current sodbuster provision of the farm bill, producers may sodbust highly-erodible land only if they develop and implement a USDA-approved soil conservation plan. The sodbuster provision, however, does not take into account the biodiversity and wildlife values inherent in retaining native prairie and high quality grasslands. Further, not all grasslands are ranked as highly-erodible, so in those instances even the basic sodbuster rules do not apply. With the value of all the resource considerations factored in, it makes little sense from a public policy standpoint to continue to provide grassland conversion production subsidies.

PROPOSAL

In order to protect native prairies and other critical grasslands, the conservation compliance section of the farm bill should be modified to deny farm commodity program, crop insurance, disaster, and conservation subsidies on previously uncropped grasslands that are converted to crop production. Landowners would still be free to plow up their grassland and convert it to cropland, but would know in advance that they could not do so and reap taxpayer-provided subsidies on that land.

This is a common sense extension of existing law withholding taxpayer support to those who "sodbust" highly erodible land. The "sodsaver" proposal would extend protection to all land without a crop production history, recognizing the important soil and wildlife benefits to be gained by keeping fragile lands intact. It would also lessen incentives to increase production beyond levels supported by the market, reducing downward pressure on crop prices and farm income.

A sodsaver provision should be carefully crafted to cover land without a cropping history in at least three of the past ten years, while exempting land in long term rotations and land currently in the Conservation Reserve Program (CRP). The long-term rotation exemption is important to ensure there are no unintended negative consequences for farms and ranches using environmentally sound, grass-based systems with occasional, sequenced cropping.

By reducing conversions, the sodsaver proposal would not only help reduce over production that results in low prices for farm commodities, but it will also reduce soil erosion and protect important grasslands that serve as valuable ecosystems for a wide variety of plant and animal species. The sodsaver proposal would also save a significant amount of federal money, savings which we would propose be invested in conservation payments to support increased grassland biodiversity. Generally, the land most threatened by crop conversion consists of marginal, rocky soils and occurs in dryer, colder locations, where crop production is especially dependent on crop insurance subsidies and disaster payments, and where commodity program transfers often represent a majority of net returns. These factors increase the value of the proposal from a budget savings point of view. A sodsaver amendment that was approved by the US Senate in 2002 was estimated at the time to save $1.4 billion over ten years.

*(**Note:** We treat the subject of "conservation compliance" more comprehensively under the Conservation and Environment section below at page 47.)*

3. Green Payments

ISSUE

The current commodity program system encourages production specialization, intensification, and overproduction while placing more diverse, resource-conserving cropping systems at a competitive disadvantage. Commodity payments keep crop prices low and also distort land prices, increasing carrying costs for all farmers and making land rental and purchase more difficult for new farmers. In the absence of effective payment limitations or other more advanced targeting provisions, commodity programs also promote consolidation and concentration into fewer, larger, less diverse farming units.

PROPOSAL

We believe the time has come to create an effective program for farmers that eliminates or at least greatly diminishes the negative effects of the current system that thwart widely supported goals of fostering family farms and environmental enhancement. It makes little public policy sense to reward overproduction of specific crops with attendant negative impacts on family farms, rural communities, and the land itself. The public will support major agricultural assistance efforts if the programs increase effective conservation, are targeted to family farms, improve communities, and reward environmental benefits. A comprehensive stewardship incentives system that includes, at its heart, an expanded and streamlined Conservation Security Program will help secure continued public support for agriculture.

Cost savings from commodity program reform measures should be dedicated to the CSP, other conservation programs, and rural economic and community development measures. Issues and policy options for expanding and reforming the CSP are dealt with in the Conservation and Environment section of this platform below, starting on page 31.

4. Full Planting Flexibility

ISSUE

Since the adoption of planting flexibility provisions via the special Integrated Farm Management program option in the 1990 Farm Bill and then across-the-board in the 1996 Farm Bill, commodity program participants are permitted to plant part of their acreage to alternative crops without sacrificing payments. Under current rules, farm program participants can plant up to 100 percent of their total contract acreage to any crop, except for limitations on fruits, vegetables and wild rice. Unlimited haying and grazing and planting and harvesting of alfalfa and other forage crops are permitted with no reduction in payments. Planting of fruits and vegetables (excluding mung beans, lentils, and dry peas) and wild rice on contract acres is prohibited unless the producer or the farm has a history of planting fruits and vegetables or wild rice, but payments are reduced acre-for-acre on such plantings. Double cropping of fruits and vegetables is permitted without loss of payments only if there is a history of such double cropping in the region.

The adoption of planting flexibility was important to farmers utilizing sustainable farming methods. Producers who for environmental, health or economic reasons were adopting diversified resource-conserving crop rotations or were combining grass-based livestock production with continuing grain production found themselves enormously disadvantaged by the traditional commodity program structure. As these farmers added forages and soil-building crops to their rotations or converted marginal or hilly crop acres to grass-based production systems, all very positive practices for the environment, they lost government payments. While planting flexibility did not correct for the long-term erosion of program “base acres” and hence reduced payments suffered by sustainable and organic producers over the years, it at least provided for a prospective elimination of a huge barrier to the adoption of more sustainable and diversified systems.

Unfortunately, the current planting flexibility provision does not apply to marketing loan gains and loan deficiency payments. Those payments are still directly coupled to actual current production of just the designated major commodity crops.

Another problem with the planting flexibility provision was highlighted by Brazil’s successful challenge to US commodity programs at the World Trade Organization (WTO). A WTO panel has ruled that the existence of the fruit and vegetable prohibition means that US direct payments may no longer be classified as non-trade distorting under world trade rules, and hence would become subject to limitations that apply to trade-distorting subsidies. As a result, the fruit and vegetable prohibition is an issue which Congress will need to address in the next farm bill if it wants to avoid the possibility of trade sanctions.

PROPOSAL

The US would be better off reducing or eliminating the need for marketing loans gains and loan deficiency payments by instituting some reasonable tools for conservation-oriented supply management, sustainable biomass energy incentives, and farmer owned grain reserves, while also improving and expanding whole farm revenue insurance options. However, if marketing loans, marketing loan gains, and loan deficiency payments are continued in any form in the next farm bill, they should be made subject to planting flexibility rules. This will reduce the incentive to plant inappropriate crops on hilly and erosive land and remove a remaining program barrier to the adoption of resource-conserving crop rotations.

In addition to completing the application of planting flexibility too all types of program payments, Congress should also remove the prohibition on planting fruits and vegetables on base acres, brining our rules into compliance with the WTO ruling that the prohibition is enough to force direct payments out of the green box. In return, Congress should take steps to improve specialty crop growers' access to whole farm revenue insurance and to the Conservation Security Program and other conservation financial assistance options, while also increasing funding for farmers markets, farm to cafeteria, and school fruit and vegetable purchase programs.

The combination of these changes will be a large positive gain for family farms, the environment, and public health while helping to bring our programs in line with international trade rules.

5. Yield and Base Update Prohibition

ISSUE

Commodity program payments are made on commodity "base" acreage owned or rented by the producer. The 2002 Farm Bill provided commodity producers with two options for determining "base" acres: (a) update base acres to reflect the 4-year average of planted acreage from 1998-2001 or (b) use historic base acreage with the addition of the 4-year average of acreage planted to soybeans and other oilseeds. Farmers were given a one-time opportunity to select the method to be used.

The other main factor in determining commodity program payment amounts is yields. The 2002 Farm Bill left payment yields for direct payments unchanged, except to add soybeans and other oilseeds to the program. Direct payment program yields are thus still frozen at their early 1980s level. However, commodity program participants were given a choice when it came to payment yields for counter cyclical payments – either use the yield for direct payments, or update yields through one of two methods: (a) add 70 percent of the difference between program yields for 2002 crops and the farm's average yields for the 1998-2001 to program yields, or (b) use 93.5 percent of 1998-2001 average yields.

The ability to update bases and yields not only increases program costs, but also encourages intensification of production and over-application of fertilizer to achieve maximum yield. Even though the 2002 version of updating was not as harmful as the traditional annual updating process that was allowed prior to 1985, a once-every-farm-bill updating process would still send a strong signal to increase production of surplus commodities and intensify production in expectation of periodic updating for base and yield. Continuation of this policy would put us further at odds with international trade rules, stimulate overproduction, increase taxpayer costs, and harm the environment.

PROPOSAL

Commodity program bases and yields should be based on historic averages and the farm bill should not provide further opportunities to update bases or yields. USDA should retain authority to revise bases for equity purposes, but not for base building at the macro level.

6. Loan Deficiency Payments Caps

ISSUE

Commodity program marketing loan provisions apply to wheat, feed grains, oilseeds, cotton, rice, and peanuts. Commodity loan programs allow producers of these crops to receive a loan from the government at a commodity-specific loan rate per unit of production by pledging production as loan collateral. After harvest, a farmer may obtain a loan for all or part of that year's commodity production. When market prices are below the loan rate, farmers are allowed to repay the commodity loans at a lower loan repayment rate. When a farmer repays the loan at a lower repayment rate, the difference between the loan rate and the loan repayment rate, called a marketing loan gain (MLG), represents a program benefit to producers.

Alternatively, farmers may choose to receive marketing loan benefits through direct loan deficiency payments (LDP) when market prices are lower than commodity loan rates. The LDP allows the producer to receive the benefits of the marketing loan program without having to take out and subsequently repay a commodity loan.

Of the three types of commodity payments – direct, counter cyclical and marketing loan gains/loan deficiency payments – there is near universal agreement that the marketing loan gains and loan deficiency payments are the most trade-distorting and hence the payments found most objectionable by our trading partners around the world. When prices are low, marketing loans create incentives to continue to produce the same specific crops. According to USDA, for instance, with marketing loan benefits ranging from around $5 billion to over $8 billion a year in the 1999-2001 period, total acreage planted to the eight major field crops increased by 2-4 million acres annually as a result. This supply response causes prices to stay low or drop further, which in turn results in exports at artificially low prices. Farmers in other countries then charge the US with dumping of major commodities on the world market at prices less than the cost of production.

In light of the trade ramifications, as well as in an attempt to find budget savings, the Bush Administration has proposed restricting MLGs or LDPs by basing loan gains and payments on historic bases and historic yields. This proposal would reduce the amount of the total US crop that would have MLG or LDP price protection coverage. For instance, USDA estimated that about 35 percent of the 2004 crop would have been ineligible for LDPs under this proposed re-formulation.

The Administration's proposal would require all program participants to lose an equal amount of coverage regardless of how aggressively they have built crop base and increased farm size over the years. The proposal would thus cause small and moderate-sized farms to shoulder the heaviest relative cost to achieve the trade and budget goals of the proposal.

There is an alternative to the Administration's proposal that would still have positive trade and budgetary results but would reduce domestic structural inequities. MLGs and LDPs could be capped at a value of production per farm that would result in the same percentage of the total US crop being eligible for coverage relative to the Administration's proposal, or to some other agreed upon coverage level. Under this alternative, all farmers could have the price protection on a basic volume of production and any extra bushels that they chose to grow above the basic amount would be at the risk of the market.

PROPOSAL

The US would be better off reducing or eliminating the need for marketing loans gains and loan deficiency payments by instituting some reasonable tools conservation-oriented supply management, sustainable biomass energy incentives, and farmer owned grain reserves, while improving and expanding whole farm revenue insurance options. However, if marketing loans and loan deficiency payments are continued in any form in the next farm bill, and if the Administration again proposes to restrict marketing loan gains and loan deficiency payments to historic base and yields, then we would strongly encourage consideration of an alternative formulation. Marketing loan gains and loan deficiency should be capped at a value of production per farm that would cover an equivalent percentage of total US production as coverage on historic base and yield, or capped at some other agreed upon coverage level. All farmers with commodity base acres would receive MLG/LDP price protection on up to that value of production and any additional bushels or pounds they chose to grow would be at the risk of the market.

Like the historic base and yield proposal above, this alternative would reduce the impact of trade-distorting subsidies and would help guard against challenges to US programs by our trade partners. It would also produce similar levels of budget savings which could be re-invested in non trade-distorting farm support, including conservation stewardship incentives, value-added producer grants, and other worthy income support measures. Importantly, though, the proposed alternative would be less disadvantageous to small and mid-sized operations and would help diminish farm consolidation incentives relative to the Administration's proposal.

7. Renewable Energy Production Advance Payment and "Cash Out" Options

ISSUE

In response to global warming, gas prices, and technological breakthroughs, interest is increasingly rapidly in cellulosic ethanol and other agriculturally-based energy production options using perennial grasses, high yield oilseed crops, and fast growing trees as feedstocks. Depending on the location of the processing and energy generation facilities that come on line, it may become attractive for some farmers to consider converting land from program crops to non-program energy crops. One way to encourage such conversions -- to increase renewable energy sources and improve the environment -- would be to allow farmers to transition out of the commodity programs into sustainable energy production without the immediate loss of price and income support. Farmer ownership and investment into such energy ventures have the long term potential to improve farm income and local economic development.

PROPOSAL

The next farm bill should create a voluntary option that allows farmers to receive advance payment of crop subsidies for the purpose of establishing perennial, sustainably-produced biomass energy crops (i.e. switchgrass, poplars, etc.). Advance subsidy payments for future years within the duration of the farm bill should be available in the establishment year of the perennial energy crop and should be paid in recognition of the cost of establishment and loss of net income during the establishment year(s) before the crop can be appropriately harvested. Farmers holding an equity position in the processing facility contracting for the perennial biomass energy crop should also be able to opt to cash out commodity program payments for the forecasted subsidy for the fields converted over a specified period of time. These payment options should retain all conservation compliance requirements and should also prohibit bringing additional land into production within the farming operation to substitute for cropland acres dedicated to biomass plantings.

C. Crop and Revenue Insurance

Farming is an inherently risky business. Weather, pests, variable costs for inputs (seeds, fertilizers, and fuels), and wide fluctuations in market prices for farm products create a volatile business environment and can cause farm income to vary significantly from year to year. A healthy farm and food system depends on public policies that help farmers manage risk effectively. Traditionally, farmers managed risk by growing multiple crops and raising a variety of livestock. If one crop failed or prices for cattle or hogs were low, then sales of other products would make up the difference. By contrast, current crop insurance policies are skewed in favor of less diverse crop production systems that are not only more vulnerable to markets, weather, and pests, but that also have serious environmental impacts.

The Risk Management Agency (RMA) of the USDA manages the Federal Crop Insurance Corporation (FCIC) and develops crop insurance plans that producers can purchase through private insurance companies. The FCIC reinsures commercial insurers for crop losses under the program and also subsidizes farmer's premiums that pay for the crop insurance. Covered losses include adverse weather, fire, insects and disease, and water supply failure. Over 100 crops are insured, though not every crop is insured in every area of the country.

The subsidy ranges from 100 percent for catastrophic coverage to an average of 56 percent for expanded coverage. Catastrophic coverage covers 55 percent of expected market price on crop losses in excess of 50 percent of the farmer's average yield. Under expanded coverage, farmers can insure up to 100 percent of the expected market value, with yields insured up to 85 percent of the farmer's average yield or 95 percent of the area yield. The subsidy for expanded coverage ranges from 40 percent to 70 percent depending on the coverage levels selected.

The FCIC also provides revenue insurance for selected crops, including cotton, rice, soybeans and wheat. Under revenue insurance, a farmer in a disaster situation receives a percentage of his historic revenue, regardless of whether the low revenue situation was caused by low prices or low yields. A special form of revenue insurance is also available in certain areas of the country to diversified producers with multiple crops or crops and livestock. Adjusted Gross Revenue insurance and Adjusted Gross Revenue-Lite insures the total farm revenue stream on coverage up to $250,000 based upon the average revenue reported on 5 years of farm tax returns.

Through the FCIC, 1.2 million policies were issued in 2005, covering an estimated $44.3 billion worth of crops. Federal subsidies for the crop insurance system exceed $4 billion a year, approximately one-quarter of which is offset by producer premiums.

Federal crop insurance has provided a safety net for participants mitigating the effects of crop loss caused by circumstances beyond their control. However, not all producers have been treated equally under federal crop insurance programs. Farmers utilizing diversified sustainable farming production systems as well as organic producers face several unfair competitive disadvantages to their conventional counterparts when participating in the program. Several steps have been taken to rectify these problems, but a satisfactory resolution is still not in place. The 2007 Farm Bill should accelerate progress toward a risk management insurance system that fairly addresses the needs and concerns of sustainable and organic producers.

1. Whole Farm Revenue Insurance

ISSUE

The Farm Bill defines sustainable agriculture in part as systems that "make the most efficient use of nonrenewable resources and on-farm resources and integrates, where appropriate, natural biological cycles and controls."[4] Sustainable farmers work to build their soil structure and fertility though enhancing organic matter and supporting soil organisms. Healthy soils produce healthier plants. The same practices that build soil quality -- like using cover crops, mulches, compost or manure, reduced tillage and diversified crop rotations or perennials -- will also protect water quality on and off the farm. Sustainable agriculture relies on a "whole farm" approach that addresses multiple resource concerns at the same time and does so through diversification methods that mimic natural systems. Diversity results in increased resource use efficiency, improved nutrient cycling, biological control of pests, and increased system resilience to poor environmental and weather conditions. Long rotations, integrating crops and livestock into the same operation, and using pasture-based livestock production systems are some of the hallmarks of common sustainable agricultural production systems.

The best products currently available for diversified crop and crop-livestock farmers are Adjusted Gross Revenue (AGR) insurance and Adjusted Gross Revenue-Lite (AGR-Lite) insurance. Payments through both of these programs are based on producers' historical revenue reported on his or her IRS 1040, Schedule F tax form. The AGR products provide protection against low revenue due to unavoidable natural disasters and market fluctuations that occur during the insurance year. Covered farm revenue consists of income from agricultural commodities, including some income from animals and animal products and aquaculture. AGR and AGR-Lite complement other Federal crop insurance plans. When producers purchase both AGR or AGR-Lite and other crop insurance plans, the AGR or AGR-Lite premium is reduced. Under AGR, no more than 35 percent of expected allowable income can be from animals and animal products, while under AGR-Lite, revenue from animals purchased for resale cannot exceed 50 percent of the total revenue. Once a revenue loss is triggered, the insured is paid based on the payment rate selected, either 75 percent or 90 percent of each dollar lost.

[4] *Food, Agriculture, Conservation and Trade Act of 1990*, Section 1603.

Unfortunately, AGR and AGR-Lite insurance are only available in limited areas of the country and even where offered still have shortcomings. AGR is available in selected counties in CA, CT, DE, FL, ID, ME, MD, MA, MI, NH, NJ, NY, OR, PA RI, VT, VA, and WA. AGR-Lite is currently available in all or selected counties in AK, CT, DE, ID, MA, MD, ME, NC, NH, NJ, NY, OR, PA, RI, VA, VT, WA, and WV. With very limited exceptions, neither product is available in the Midwest, South, Plains and Mountain states.

PROPOSAL

Building on the experience to date with the AGR/AGR-Lite programs but improving on those efforts, the 2007 Farm Bill should create an accessible and affordable revenue insurance option that that would be available on a nationwide basis. The new whole farm revenue insurance option should be available to farmers everywhere, not limited to fruit and vegetable production areas or to areas with historic low use of crop insurance. The policies should be structured in a manner to significantly reward diversification in recognition of its high environmental and risk management value. To better mesh risk management and conservation policy, a system of premium discounts should be established to reward high levels of environmental performance through development and implementation of a NRCS-certified comprehensive whole farm Resource Management System plans.

While we are only addressing crop insurance options in this recommendation, we believe the same principles -- nationwide coverage, promoting diversification, rewarding comprehensive conservation and environmental systems -- should also apply when and if consideration is given to revenue or revenue deficiency program alternatives to commodity and disaster payment programs.

2. Fair Crop Insurance Terms For Organic Farmers

ISSUE

While organic producers can enroll their crops in the Multi-Peril Crop Insurance Program (MPCI), they are required to pay a premium surcharge of five percent based upon the mistaken perception that organic production entails more risk than conventional production of the same crops. On top of this, the reimbursement that organic producers receive from their insurance policy, should they collect from it, does not accurately reflect the market value of their crops. Average conventional crop prices are used to calculate the payment that an organic farmer receives, along with yield loss and affected acreage. So while organic producers pay a premium surcharge for their policy, they do not receive the organic price premium for their losses. In essence, they are discriminated against at both ends of the crop insurance payment structure.

USDA's Economic Research Service and the Agricultural Marketing Service have begun gathering data to determine price levels for organic crops, but no date has been set as to when valid price data will be available for payment calculations to organic producers.

PROPOSAL

Organic producers should have access to insurance programs that meet their needs without putting them at a competitive disadvantage to conventional producers. The 2007 Farm Bill should eliminate the current five percent surcharge on premiums for organic producers and establish a deadline for providing payments that reflect organic market prices to organic producers.

3. Crop Insurance Conservation Requirements

This issue and policy option is discussed in the conservation compliance section on page 47.

D. General Credit Title Issues

USDA's Farm Service Agency offers both direct and guaranteed farm ownership loans to assist farmers and ranchers in getting started on a family-sized agriculture endeavor or expanding an existing small operation. Direct and guaranteed loans are also provided to finance annual operating expenses, machinery purchases, and soil and water conservation investments. Direct loans, both ownership and operating, are currently capped at no more than $200,000, while FSA may guarantee loans from commercial banks at up to $852,000 (the amount is indexed annually to inflation). For both direct and guaranteed loans, the borrower must operate a farm that is not larger than family-sized (defined in part as a farm in which the members of the family provide all of the management and a very substantial portion of the annual labor), have sufficient experience and training, and be otherwise unable to obtain credit from commercial sources.

Ideally, the goal for the small direct loans is for farmers and ranchers to graduate through the process from receiving direct government loans, to having the government guarantee a loan from a private lender, to establishing their own sustainable line of direct private loans. Borrower training, loan supervision, and market placement graduation provisions in the law help guide this process.

Congress adopted several important changes to the credit programs in the 2002 Farm Bill. Improvements were made to the Beginning Farmer and Rancher Down Payment Loan Program, the overly-restrictive three-year primary operator rule was eased, and funding authorization levels were increased. Timelines for selling inventory property were improved and bridge loans were authorized to allow purchase of real estate when FSA is temporarily out of loan funds. Authority was provided for FSA to guarantee "aggie bond" loans made by state first time farmer programs, though this provision unfortunately cannot go into effect until a parallel change is made to the tax code. A pilot project was approved to allow guarantees on private land sale contracts and several measures to reduce paperwork were enacted.

Increasing land and capital investment costs, rising interest rates, FSA loan officer attrition, and a decline in the number of commercial lenders in agriculture all suggest that further improvements to the credit title of the farm bill are still very much in order. Three issues in particular stand out – loan size caps, term limits on loan eligibility, and making credit available to alternative crops and enterprises.

1. Direct Farm Ownership and Direct Farm Operating Loan Limitation Reform

ISSUE

Loan limits determine the maximum amount of dollars that an applicant can borrow from FSA. Direct farm ownership (DFO) loans, which finance the purchase or improvement of real estate, currently have a $200,000 loan limit. Direct operating loans (DOL), which are used to finance production expenses, machinery, equipment, vehicles, and livestock, also have a limit of $200,000. These limits were most recently updated in the late 1970s and early 1980s. Land, production and capital costs have increased significantly since that time. The current loan limits are no longer meeting the needs of all family-sized and beginning farmers and ranchers who otherwise qualify under the eligibility criteria that borrowers operate not larger than family-sized farms, have sufficient experience and training, and be unable to obtain adequate credit elsewhere. The problem is particularly acute on the east and west coast and in particular locations elsewhere where land values have skyrocketed.

PROPOSAL

The 2007 Farm Bill should increase both the direct farm ownership and operating loan limitations from $200,000 to $300,000 and index the new limits annually to inflation. This basic direct farm ownership loan limit should be adjusted upward regionally in specifically defined geographic areas with extremely high land prices, based on a formula that reflects land price differentials. In making these loan limitation adjustments, however, Congress must increase the farm bill funding authority and actual annual appropriations for direct ownership and operating loans to ensure the number of farmers served does not decline as a result of loan limit modernization.

2. Term Limits and Graduation

ISSUE

Under current law, there are restrictions – referred to as term limits – on the number of years a borrower can be enrolled in the FSA direct and guarantee loan programs. The term limits for direct loan programs are seven for operating loans and ten years for ownership loans. There is also a 15-year term limit on guaranteed loans, though Congress has temporarily waived the provision until January 2007. Once the term limit is reached, a borrower must be able to graduate to private, commercial lender at commercial rates or risk being unable to sustain their operation. Term limits do not have any exclusions or extensions for events such as natural disasters or export bans or other circumstances beyond a producer's control.

The idea behind term limits is good – that farmers will be able to graduate from direct loans to guaranteed loans to commercial loans over a period of time. Congress passed term limits in part due to past abuses in which some producers simply became lifelong government borrowers by default. However, the hard and fast limits are increasingly viewed as arbitrary and an overly rigid in light of the low profit margins, the uncertainty of agricultural production, and increasingly unstable weather patterns and prolonged droughts.

PROPOSAL

The 2007 Farm Bill should re-emphasize and strengthen the borrower training program, loan supervision and regular loan assessment rules, market placement and graduation procedures, and the family-sized farm test and no credit elsewhere test. Congress should direct the agency to issue rules and performance criteria that will ensure these existing elements of the program are more fully utilized. The goal should be to maintain a system that from day one has as its objective starting successful farming operations and graduating borrowers to commercial credit in the shortest period of time possible.

On the basis of having those systems in place and fully funding loan officer staffing and staff training requirements, Congress should eliminate term limits. Properly applied, the existing training, loan assessment, market placement, and family-sized farm and no credit elsewhere limitations are effective in ensuring FSA credit is playing its proper role of providing temporary assistance. With the proper protections and directives in place, farm loan officers should be allowed to do their jobs and make sound loans to qualified borrowers on a temporary basis without the imposition of arbitrary term limits.

3. Alternative Enterprises

ISSUE

Farmers who diversify their production and who grow alternative crops or start alternative enterprises to try to improve income, improve their land stewardship or respond to niche market opportunities often face the problem of not being able to secure credit or crop insurance. Credit and insurance programs work most easily when used with traditional crops and cropping systems that have a long track record and large amounts of data accumulated over many years. It can be understandably difficult for private banks and insurance companies, federal-private partnerships, and federal programs to respond to innovative approaches being taken by farmers. Yet, if these important new enterprises and markets are going to be built, producers need access to credit and access to insurance.

PROPOSAL

Federal credit and crop insurance program barriers to alternative enterprises and diversification should be minimized. The 2007 Farm Bill should include language directing Farm Services Agency and Risk Management Agency to encourage and support market-based efforts by farmers to pursue alternative crops and enterprises and to develop new niche markets for which enough information exists to make it a reasonable risk.

E. Competitive and Fair Agricultural Markets

Large segments of the nation's food supply are dominated by a handful of corporations. Family farmers and ranchers are facing markets for the sale of their products that are increasingly concentrated in fewer and fewer firms. In many rural communities there are only a few, or even one, corporate buyer(s) for an agricultural commodity. This is especially true in the livestock and poultry sectors. The major packing and processing firms are often livestock and poultry producers in direct competition with farmers and ranchers.

Many farmers and ranchers enter into production or marketing contracts with these corporations in an attempt to gain access to the markets for their products. But the bargaining and market power of the corporations is far greater than that of individual farmers and ranchers in these vertically integrated systems. The result has been an expanding use of production and marketing contracts for agricultural commodities that prohibit farmers and ranchers from using legal measures to increase their bargaining power. These contracts shift significant capital costs and risks on the farmers and ranchers and establish payment systems that often lack clear payment criteria based on information available to the producer. Overall, information about market prices for agricultural products has also decreased as the use of fair and open markets decreases. Many farmers and ranchers face price discrimination not based on the quality of their products.

For family farmers and ranchers it is critical that agricultural markets be fair, with competition among agricultural product packers, processors, and other buyers, and adequate market access for farmers and ranchers. Consumers can benefit from increased competition and fairness as well. Competition spurs innovation among producers and gives farmers and ranchers more market channels to provide consumers with greater diversity of higher quality and fairly priced goods. As agricultural resources are concentrated into a fewer firms focused on a limited array of uniform products and a narrowing base of animal varieties and crops, farming and ranching opportunities are decreasing for the next generation.

Rebalancing the bargaining power between farmers and ranchers and the corporate packers and processors can also shift responsibilities for environmental quality and food safety to these corporate entities. This is critical because these corporations generally dictate the terms for the design of animal confinement facilities, animal housing conditions, feed and medication, as well as waste handling and disposal facilities, but seek to avoid responsibility for the failure and inadequacy of these systems. Rural communities are left to cope with air and water pollution from industrialized, concentrated agricultural operations, while much of the wealth generated in the agricultural sector is shifted to corporate entities outside the community.

GENERAL PROPOSAL

We believe that decades of government inaction in the face of increasing market concentration has had a dramatic, negative impact on farmers, ranchers, and rural communities as well as the environment, food quality and diversity, food safety, and consumer prices. Therefore, we support the inclusion of a Competition Title in the next Farm Bill that helps restore fairness and efficiency to market forces, through measures including strengthened and improved enforcement of the Packers & Stockyards Act and the Agricultural Fair Practices Act and the establishment of a new USDA Office of Special Counsel for Competition Matters.

1. Packers and Stockyards Act

A Competition Title for the next Farm Bill should amend and strengthen the Packers and Stockyards Act (PSA) to ensure fairness in the agricultural product market place and to increase farmer and rancher access to market information.

ISSUE – Captive Supplies

Increasingly, packers and processors are also livestock producers controlling large numbers of animals often in direct competition with the farmers and ranchers whose products or services they purchase. These firms have a large amount of market power which enables them to exert control over market prices. This market power is increased by marketing and production contracts that do not fix base prices at the point of sale and by secrecy in the trading of livestock forward contracts and marketing agreements with critical market information made available to the packers and processors that is not available farmers and ranchers.

PROPOSAL

In order to prevent packers and processors from manipulating the base price of livestock, while still allowing adjustments to a base price for quality, grade, or other factors outside the control of the packers, the PSA should be amended to prohibit the use of production contracts that do not fix base prices at the point of sale and to require open trading of livestock forward contracts and marketing agreements.

ISSUE – Undue Price Preferences

Many small and mid-sized family farmers and ranchers have been denied market access by packers and processors. The companies give undue preferences to producers offering thousands of livestock in a single contract while discriminating with lower prices or denying market access to small and medium-sized livestock producers offering livestock that meets the same, or even higher, standards for quality, grade, and other criteria.

PROPOSAL

The PSA should be amended to require the Secretary of Agriculture to write regulations defining the statutory term "unreasonable preference or advantage" to ensure that small and mid-sized producers do not face discrimination in the market place. This definition could limit the number of animals included in a contract, but not the total number of contracts offered by a buyer, in order to prevent small and medium-sized livestock sellers from being denied market access by buyers who refuse to enter into transactions that do not provide thousands of animals per contract.

ISSUE – Anti-competitive Injury

Recent court decisions have undercut the PSA's protections and remedies for farmers and ranchers from unfair and deceptive trade practices by requiring that individual producers prove not only an individual injury from these practices but also prove that the entire market for their product has been harmed by the anti-competitive behavior of the defendant. As a result, farmers and ranchers with meritorious claims that a processor, packer, or other entity has injured them by engaging in unfair and deceptive practices are denied redress under the PSA. This interpretation of the Act places far too great a burden on individual producers. It also ignores the important role of the Act in *preventing* harm to entire markets by providing sanctions against unfair and deceptive trade practices of individual firms that taken together could harm the entire market.

PROPOSAL

The PSA should be clarified to provide that producers need not prove anti-competitive injury to an entire market in cases involving unfair or deceptive trade practices which have harmed them individually.

ISSUE – Attorney's Fees

The PSA has no provision for awarding attorney's fees to farmers and ranchers who bring a successful action under the Act. In addition, producers may have to travel long distances to being actions. Many producers with meritorious claims under the Act cannot meet the financial burden of bringing an action.

PROPOSAL

The PSA should be amended to provide for the award of attorney's fees to producer plaintiffs who bring successful actions under the Act and to require that cases be heard in the federal courts where the producer plaintiff resides.

ISSUE – Full Poultry Coverage

Currently the PSA provides USDA with the administrative authority to investigate and file administrative complaints against violators of the Act regarding livestock transactions, but not poultry transactions. The availability of these important USDA administrative resources is necessary to ensure the fair and orderly operation of poultry contracting and marketing. The USDA administrative process can provide a timely, streamlined, and less costly remedy for violations than a full blown enforcement action. There is no justification for denying poultry growers the same protection available to livestock producers.

PROPOSAL

The PSA should be amended to give USDA administrative authority to investigate and file administrative complaints against violations of the Act regarding poultry transactions, on the same footing as the administrative authority to investigate and enforce regarding livestock transactions. The PSA should also be amended to extend PSA jurisdiction to all poultry growing operations, rather than just poultry for slaughter.

2. Agricultural Fair Practices Act

A Competition Title for the next Farm Bill should amend and strengthen the Agricultural Fair Practices Act (AFPA) to ensure fairness in the agricultural product market place and increase the access of farmers and ranchers to market information.

ISSUE – Good Faith Bargaining

Farmers and ranchers can increase their bargaining power in contracting with processors, packers, and other commodity buyers by joining together in producer associations or cooperatives, entities which have special recognition under federal and state law. But some packers, processors, and other firms have refused to deal with producers who try to form or belong to producer associations or cooperatives.

PROPOSAL

The AFPA should be amended to make it unlawful for any firm to refuse to deal in good faith with any producer for belonging to or attempting to organize an association of producers or a cooperative.

ISSUE - Arbitration

Federal and state laws provide various legal protections for the agricultural producers which can be enforced in the courts. Livestock and poultry packers and processors, however, routinely include provisions in production and marketing contracts that restrict farmers and ranchers to binding mandatory arbitration as the only remedy for contract disputes. Mandatory arbitration as a system favors the corporate entities. The process may impose costs higher than the costs of other legal actions, costs that many farmer and ranchers will find impossible to meet. Representatives of the corporate entities appear repeatedly before the same arbiters. The process also limits the right of discovery, the legal process by which a party can compel the disclosure of information, an important right when the outcome of dispute may rest on information in the hands of the corporation.

PROPOSAL

The AFPA should be amended to prohibit the use of binding mandatory arbitration clauses and limit the restrictions on other legal rights available to farmers and ranchers who become involved in production and marketing contract disputes. This measure will not prevent both parties to a contract dispute from voluntarily agreeing to binding mandatory arbitration. Farmers and ranchers should be able to exercise their full legal rights and choice of forum without having to bargain those rights away in order to gain access to markets for their products.

ISSUE – Confidentiality Clauses

Prior to the 2002 Farm Bill, packers and processors routinely included confidentiality clauses in livestock and poultry production and marketing contracts to prohibit farmers and ranchers from revealing and discussing the terms of the contracts with anyone. The 2002 Farm Bill included a measure to ensure that farmers and ranchers could discuss the terms and details of the contracts with a federal or state agency, their legal advisers, their lenders, accountants, farm managers and landlords, and members of their immediate family. But the measure failed to cover farmers and ranchers in the discussion of their contract terms with producer associations or cooperatives.

PROPOSAL

The prohibition on confidentiality clauses be expanded to cover all agricultural marketing and production contracts, not just those for livestock and poultry. The measure should also be amended to ensure that farmers and ranchers can share information about the details and terms of contracts with other farmers and ranchers and producer associations and cooperatives.

ISSUE - Disclosure

Packers, processors, and other entities that contract with hundreds of agricultural producers generally have far greater information about production risks, as well as greater bargaining power, than producers. Many production contracts require agricultural producers to build animal confinement facilities, waste-handling facilities, and other specialized structures. Producers often go deeply into debt to finance these required investments. In many cases, the producers are relying on information about the profitability of their operation over the long-term provided by the packer or processor. Once this investment has been made, however, farmers and ranchers can find that they are threatened with premature cancellation of their contracts if they try to enforce their contract rights and other legal rights or merely raise issues or bring complaints to the packer or processor.

PROPOSAL

To increase and protect fair bargaining for agricultural producers, the AFPA should require that contracts with packers and processors include clear disclosure of producer risks. In addition, the AFPA should prohibit premature cancellation of contracts without a showing of good cause and provide for the recapture of producer capital investment, so that contracts that require a significant capital investment by the producer cannot be arbitrarily or capriciously canceled without compensation to the producer.

ISSUE – Unfair Ranking Systems

Many packers and processors do not offer an agricultural producer a payment rate based on the quality of the product offered by that producer. Instead, the packers and processors establish a "tournament" or "ranking system" ostensibly based on the quality of the individual's product relative to that of other producers. The payment rates are unilaterally calculated by the packer or processor and the information on the overall quality of products is generally available only to the packer or processor. In addition, in a system such as the integrated poultry production system, the processor provides the birds to be raised, the feed, medication, and other production inputs. By providing lower quality inputs, processors can ensure that agricultural producers who raise questions or have complaints will only be able to provide lower quality products.

PROPOSAL

The AFPA should ban unfair trade practices including "tournament" or "ranking system" payments that are unilaterally calculated by the packer and processor and result in unpredictable and arbitrary payments.

3. Office of Special Counsel

To ensure effective and timely enforcement of these measures, we support the establishment of an Office of Special Counsel for Competition and Market Access Issues at USDA to investigate and prosecute violations regarding competition and fair market issues.

ISSUE

Numerous congressional hearings, US Government Accountability Office Reports, and reports from the office of the USDA Inspector General have concluded that USDA's investigation and enforcement of the Packers and Stockyards and the Agricultural Fair Practices Act has been weak and mismanaged. Our recommendations for provisions in a Farm Bill Competition Title to increase farmer and rancher bargaining power and access to fair markets will only be effective if USDA vigorously investigates complaints and enforces the provisions. The creation by Congress of an Office of Special Counsel for Competition and Market Access will provide a focused center at USDA to deal with investigation and enforcement.

PROPOSAL

The Farm Bill Competition Title should establish an Office of Special Counsel at USDA for Competition and Market Access whose sole function is to investigate and prosecute violations regarding agricultural competition and fair market issues. USDA should be required to submit an annual report to Congress on the activities of this Office of Special Counsel.

Part II: Conservation and Environment

If revitalization of family farming and farm communities is to succeed, farm program objectives must be integrated with environmental objectives. Society is demanding better environmental protection and agriculture has a key role to play. Resource conservation and environmental enhancement can be promoted in such a way as to re-enforce the public interest in sustaining family farms and supporting rural community development, or it can be aligned with a different set of choices, supporting farm consolidation, rural depopulation, and industrial farming. The direction chosen depends to a significant degree on policy choices, including but not limited to those made in the farm bill.

Privately-owned crop, pasture, and rangeland account for about half of the land mass of the lower 48 states, with private forest lands making up another 20 percent. In addition to food and fiber, farmers and ranchers are in a unique position to also help provide healthy soils, clean water, habitat for native wildlife, renewable energy sources, and other conservation benefits. Farmers and forest landowners can also sequester carbon and reduce greenhouse gas emissions and thus help reduce the threat of climate change. Farms also serve as the frontline against sprawling development. In this light, it is not surprising then to learn that USDA is the nation's largest conservation agency.

Since the passage of the 1985 Farm Bill, conservation requirements and assistance programs have played an ever-increasing more prominent role in each succeeding farm bill. From conservation compliance and the Conservation Reserve Program in 1985, to the Wetlands Reserve Program, Water Quality Incentives Program, and Integrated Farm Management program in 1990, to the Environmental Quality Incentives Program in 1996 and Conservation Security Program in 2002, there now exists a very substantial set of program authorities and mandatory funding allocations for the conservation title of the farm bill.

The 2002 Farm Bill came close to doubling the size of the farm bill conservation program funding base and made significant strides toward re-balancing the funding split between land retirement options -- which had been the lion's share of the total budget -- and working lands stewardship programs. Even with this increase in funding, farmer demand for conservation assistance dollars continues to outstrip the funding available. In that context, it is particularly frustrating that Congress has chosen to cut farm bill conservation funding in recent years in order to offset increases elsewhere in the food and agricultural budget.

Key choices must be made in 2007 to consolidate gains, restore funding cuts, increase base level funding, and improve programs to better assist family farmers and ranchers in their efforts to be good stewards of the land and better assist rural communities to protect and restore their natural resources and landscape amenities.

A. Conservation Security Program

ISSUE

An effective federal farm policy would advance the widely-supported goals of fostering family farms, healthy rural communities, and environmental enhancement. It makes little public policy sense to reward overproduction of specific crops with attendant negative impacts on family farms, rural communities, and the land itself. The public will support major agricultural assistance efforts if the programs increase effective conservation, are targeted to family farms, improve communities, and reward environmental benefits. A comprehensive stewardship incentives system that includes, at its heart, an expanded and streamlined Conservation Security Program, will help secure continued public support for agriculture.

Farm programs, including stewardship or green payments, should be made available to all types of crops and all types of farming enterprises while also rewarding innovation and the creation of public goods. The Conservation Security Program (CSP), passed by Congress in 2002 and first implemented by USDA in 2004, encourages and supports conservation on farming and ranching operations of all types in all regions, and comprehensively addresses soil, water, wildlife, energy and other resources of a healthy agricultural system.

The CSP represents the first serious attempt to move toward an outcome-based federal conservation program that rewards performance rather than prescriptive practices. The CSP is also the first broad-based federal farm conservation incentive program ever that by statute and regulation requires participants to solve resource problems to the non-degradation or sustainable resource use level. The CSP emphasizes cost-effective management practices and systems and offers graduated tiers of enrollment leading to whole farm, total resource management systems at the highest tier.

CSP payments are not based on the type or volume of production or on prices, and instead are based on fulfillment of clearly defined conservation conditions and compensation for provision of environmental services. Unlike commodity program payments, CSP payments are world trade-compliant "green box" payments not subject to restrictions in trade agreements.

In its first three years, the CSP enrolled nearly 20,000 farmers in 280 watersheds across the country, obligating over $2 billion in long-term contracts. While great progress has been made in launching the CSP, post-farm bill funding cuts and unfortunate administrative implementation decisions have restricted enrollment opportunities to a limited number of specific watersheds, in contrast to the intent of the 2002 Farm Bill that the program be available nationwide on a regular basis.

In light of continuing serious agro-environmental challenges and mounting trade pressures on traditional US farm programs, strengthening and streamlining the CSP while rebuilding its funding base will be a major issue in the next farm bill. Supporting farmers and ranchers by rewarding stewardship has unique advantages for reforming agricultural policy. Making stewardship a primary basis for public support builds on the unique status and responsibility of farmers and ranchers as the caretakers of our land, water, and biodiversity. Properly designed and implemented, stewardship payments produce real and compelling environmental benefits for taxpayers, while providing a more sustainable basis for public support of farmers and ranchers.

GENERAL PROPOSAL

The Conservation Security Program (CSP) should be retained in the next farm bill as the primary stewardship incentives program to reward superior conservation systems on land in agricultural production. An adequate and protected funding mechanism should be provided to ensure implementation of a true nationwide program serving all of agriculture. The CSP should be enhanced by further accelerating the movement toward outcome-based criteria and payment structures, in order to foster transitions to more sustainable agricultural conservation systems. The CSP tiered structure and payment mix should be revised to foster increased conservation results at a lower cost. The CSP should be closely coordinated with the Environmental Quality Incentives Program (EQIP), and EQIP should be improved by adopting some of the CSP program innovations within EQIP.

1. Program Scope and Funding

ISSUE

By creating the Conservation Security Program and expanding funding for the Environmental Quality Incentives Program, the 2002 Farm Bill began to shift the balance of conservation funding toward more stewardship incentives on active, working farmland. While land and farm retirement funding still predominates, mostly due to the sheer size and cost of the Conservation Reserve Program, the ratio of land retirement to working lands stewardship support is not as completely one-sided as before. In fact, if Congress had not reneged on CSP funding through massive CSP cuts in budget and appropriations bills since passage of the 2002 Farm Bill, there would be a rough equilibrium today.

Congress approved the CSP as a nationwide program available to all farmers and ranchers willing to meet its high environmental standards through the adoption of conservation plans addressing major resource problems. This approach differed from the one taken for EQIP in the 1996 Farm Bill. A large portion of EQIP funding was targeted to key problem watersheds or other specific eco-regions, focusing dollars geographically to help solve particular problems. Following passage of the 2002 Farm Bill, however, EQIP rules were changed dramatically so that funding is now available everywhere and is no longer targeted. Ironically, at the same time, CSP, which was intended to be available everywhere, was delivered by USDA on a geographically targeted watershed basis. With a new farm bill approaching, decisions must be made about whether either program should be geographically targeted or whether both programs should be available everywhere and, if so, to what degree they should be integrated or coordinated.

In delivering CSP on a watershed basis, USDA has stated its intent to achieve an eight-year watershed rotation, so that each watershed in the country is open for CSP enrollment once every eight years. That timeframe is far too slow to be effective as a green payments program that achieves the goal of motivating farmers to adopt high level conservation systems. Due to funding cuts and administrative decisions to restrict CSP technical assistance, however, the actual watershed rotation has extended far beyond even the eight-year timeframe – effectively relegating the CSP to a ridiculous once-in-a-generation enrollment chance. An absolutely essential, inescapable core issue for the next farm bill, then, is how to ensure the program is available to farmers and ranchers on a regular and timely basis.

One key factor limiting the availability of CSP is a tight cap on technical assistance and staffing that USDA has imposed on itself. The statute restricts technical assistance for CSP to 15 percent of total program funding, which USDA has chosen to interpret as 15 percent of current year funding rather than as a percentage of the total value of the 5 and 10-year CSP contracts. By restricting funding and staff available to implement the program, USDA has severely limited the number of watersheds they can serve each year.

PROPOSAL

The CSP should quickly become the comprehensive, national base program for working land conservation it was intended to be. It should play a major role in increasing funding for working lands conservation incentives both in absolute terms and relative to land retirement funding. The CSP should be fully funded with enrollment opportunities provided in all watersheds annually, preferably on a continuous sign-up basis or a rotating continuous sign-up basis. If sign-ups are not continuous, the sign-up period should be predictable and farmers and ranchers should be provided with reasonable advance notice.

Technical assistance is critical to an effective CSP. The CSP technical assistance funding provision should be fixed to unambiguously provide for sufficient and timely technical assistance capacity. If a statutory percentage cap on CSP technical assistance is retained, the cap should clearly apply to the total contract obligation amounts, not just to first year funding, and the farm bill should mandate USDA compliance with that accounting method.

2. Natural Resource and Environmental Criteria and Enrollment Tiers

ISSUE

CSP introduced several new elements into conservation programs, including graduated levels (tiers) of participation and a requirement to reach or exceed the non-degradation or sustainability criteria for specific resource concerns established by the NRCS. The tier requirements are as follows.

- The tier one level of participation *by statute* requires that a portion of a farm address at least one resource of concern to the non-degradation standard, and *by rule* requires that two resources of concern -- soil and water quality -- be addressed on a portion of the farm.

- The tier two level of participation *by statute* requires that the entire farm be included and address at least one resource of concern to the non-degradation standard, and *by rule* requires that three resources of concern -- soil and water quality plus one additional resource concern, with wildlife habitat the most common choice -- be addressed on the entire farm.

- The tier three level of participation *by statute and by rule* requires that the entire farm be included and that all resources of concern be addressed to the non-degradation or sustainable use standard.

PROPOSAL

The natural resource and environmental criteria and conditions for participation in the CSP should be refined and improved based on what has been learned in the first years of the program. The eligibility bar for CSP participation should be set at a high stewardship level and the payment structure should be set to encourage practice and system innovation and continual improvement.

- ***Resource Concerns*** -- The current regulatory requirement to address soil and water quality at all tiers should be codified. Wildlife habitat should be included as a mandatory resource concern at tier two, not just at tier three. Consideration should be given to creating a tier one sub-option to incorporate wildlife habitat and biodiversity concerns in addition to soil and water quality.

- ***Sustainable Systems*** -- Greater emphasis and better incentives should be given to sustainable systems approaches to achieving resource goals throughout the program. Participation at the tier three level should require the adoption of resource-conserving crop rotations and cover cropping systems on all or most of the annual cropland enrolled and managed rotational grazing on all or most of the pastureland enrolled.

- ***Continual Improvement*** -- All participants should be required to address additional resource concerns and/or adopt new conservation activities during the contract term.

- ***Soil Quality*** -- To measure soil quality the program should use a reasonably comprehensive index assessing actual soil quality on the farm, in addition to the current modeling-based soil conditioning index.

- ***Conservation Planning Framework and Eligibility Threshold*** -- Current CSP regulations require farmers and ranchers to achieve one hundred percent of all aspects of the eligibility bar, defined by regulation, before being allowed into the program. The statute, on the other hand, requires contractual agreements, based on practical and achievable comprehensive farm conservation plans, which reach and exceed the eligibility bar through participation in the CSP. We believe both approaches are ill-advised.

The current regulatory approach has the benefit of being sure the program is targeted to farmers and ranchers with effective conservation in place, but has the disadvantage of excluding those who meet most of the standards and are quite willing to quickly make adjustments to meet them all. The current regulatory approach has also unfortunately kept excellent stewards out of the program for inconsequential reasons. The current statutory formulation, on the other hand, has the benefit of motivating additional conservation through careful conservation planning, but potentially could fail to screen out those producers who are unlikely to be able to fulfill the law's requirements.

We recommend the adoption of a third way in the new farm bill:

- First, the farm bill should re-emphasize the central importance of conservation planning to the CSP, a dimension of the program which unfortunately has been de-emphasized by USDA during initial implementation.

- Second, the farm bill should endorse the Department's pursuit of soil, water, wildlife and other indices to be used to help determine CSP eligibility and enhancement payment rates. As a condition of eligibility, scores on these indices should be sufficiently high to indicate that very effective conservation effort has already taken place.

- Third, to the extent that program implementation continues to also rely on practice-based eligibility requirements, the farmer should have the option of incorporating these into the conservation plan and implementing whatever specific practices are required within the contract period. For most practices, this should be within the first year or two years of participation in the program. The statute should clarify that in such cases enhancement payments are delayed until the conservation activities are implemented.

3. CSP Payments and Enhancements

ISSUE

Conservation programs are now generally measured by how many acres or feet of a given practice are installed on the landscape, numbers of practices adopted and participants, and amount of funding allocated. However, creating incentives for the achievement of environmental outcomes rather than the adoption of specific practices is likely to be more cost-effective, allow more flexibility for innovation by farmers and ranchers, resulting in more extensive and predictable environmental improvements. The CSP has moved further in the direction of linking payments to achieving certain outcomes than any other or previous program. Further evolution in the direction of quantitative results that are measured or estimated for a given environment is both possible and desirable, especially as improved tools and indicators are developed and tested and ultimately adapted to the CSP payment structure.

CSP offers four types of payments:

- The first is called a base payment in the statute but a ***stewardship payment*** in the regulations and program delivery. It is a per acre payment based on a fraction of the local land rental rates in recognition of the ongoing good conservation work that allowed the farm to qualify for the program.

- The second is called a maintenance payment in the statute or ***existing practice payment*** in the regulations and program delivery. The statute intended these modest payments to be set at a percentage of the actual costs of maintaining and managing existing conservation practices on an ongoing basis. By regulation, however, the "existing practice" payment was transformed into a 25 percent bonus on top of the base or stewardship payment as a substitute for maintenance payments. The purpose of the maintenance or existing practice payment is to share the cost of continuing current conservation efforts.

- The third is a ***new practice cost share payment*** for the adoption of new conservation practices. By statute, cost share payments are available up to a 75 percent cost share rate (up to 90 percent for beginning and limited resource farmers). Cost share is available for new practices that will be started as a result of implementing the CSP conservation plan and, consistent with standard cost-sharing formulas, cover planning, implementation, maintenance, and management costs. By regulation, new practice payments are capped at a 50 percent cost share rate. In actual practice, new practice payments are rarely if ever actually offered to CSP participants, despite the requirements of statute and regulation.

- The fourth are ***enhancement payments*** for superior conservation performance, including both new and continuing conservation practices and activities. Enhancement payments generally make up the bulk of the total CSP contract. Currently, enhancements for soil quality, water conservation, energy conservation, greenhouse gas/carbon management, and native plant and pollinator conservation are available based on a *national list* of enhancement criteria and payment levels. Enhancements for air quality, grazing management, wildlife habitat management, nutrient and pest management, and on-farm conservation research, demonstration and assessment and evaluation projects are determined at the *state level*. By regulation but not by statute, enhancement payments determined at the time of enrollment decline on a graduated basis and reach zero in year seven of the ten year contract, for the equivalent of four years of full payments spread out over seven years and then declining to zero. Again by regulation, enhancements signed up for subsequent to the initial enrollment are paid at the full rate over the full, remaining term of the contract. As a result, farmers are encouraged by program payment rules to defer conservation improvements until after they are enrolled in the program and subsequently have the opportunity to modify their contracts, thus locking in the full payment stream.

CSP contracts can be modified during the contract period to reflect the loss or addition of land or the participants decision to address additional resource concerns (if at tier one or two), add new or higher levels of conservation practices or activities, or graduate to a higher tier. CSP participants who enrolled in 2004 were given the opportunity to modify contracts for all these purposes, but for 2005 contracts USDA scaled back the modification process to allow only tier graduations and, for tier three only, the addition of new land or new practices and enhancements.

By statute, CSP contracts may be renewed at the option of the participant. Tier 1 participants, if they want to renew, must add additional land and conservation practices in their new contract. *By regulation*, USDA has been silent on the right of renewal and at best vague about the renewal process.

By statute, CSP payments are subject to direct attribution rules so that farmers receive cannot evade the payment caps by receiving payments under several partnerships or entities. The same law applies to EQIP. *By regulation*, EQIP has direct attribution rules but the CSP inexplicably does not.

PROPOSAL

Much can and should be done to improve the CSP payment structure. The farm bill should provide appropriate general and specific guidance to allow NRCS to adopt improved rules and implement an improved program in its second iteration.

▪ ***Streamlined Payment Structure*** - The CSP payment structure should be re-examined to even more firmly emphasize natural resource and environmental enhancement and to drop, reduce, or modify payments that do not support this goal, including at a minimum the following changes.

- The rental rate-based base or stewardship payment should be converted to a modest flat sum conservation planning payment (year one) and conservation practice maintenance payment (years two through end of contract), graduated by tier (for example, $1,000, $2,000, and $3,000 for each tier, respectively).

- Given the unfortunate and unforeseen difficulty in USDA's capacity to implement the maintenance payments as a separate cost-share payment for the management and maintenance costs involved in sustaining ongoing practices, these payments should be dropped and replaced with the flat sum planning and maintenance payment described above.

- New practice cost share payments, on the other hand, should not only remain, but should be fully implemented, reversing USDA's regrettable administrative decision to de-emphasize new practices, contrary to law.

- Finally, enhancement payments should remain the major CSP payment type and focus of the program.

▪ ***Consistent, Outcome-based Payments*** -- The CSP payment and enhancement system should be simplified wherever possible, but in a manner that ensures continued progress toward sound outcome-based measures for payments, with higher payments provided for higher levels of conservation. Special attention should be given to continually improving outcome-based criteria and payment indices for soil quality, wildlife habitat, energy efficiency, air quality, and nutrient and pest management. To continue to improve the CSP, investments should be made in developing new tools, indicators, incentive mechanisms, and cost-effective monitoring and prediction measures to accelerate progress toward an outcome-based program. In the meantime, states should be permitted and encouraged to use graduated "management intensity" factors in addition to or instead of payment indices where it would improve farmers understanding of the program and program results. All regulatory provisions that have crept into CSP implementation which diminish or deny its intended purpose as a green payments program available to producers on an ongoing basis should be discarded. These include declining enhancement payments, constricted contract modification rules, and ambiguous contract renewal provisions.

▪ ***Small Farms and Beginning and Socially Disadvantaged Farmers and Ranchers*** -- Enhancement payments that are made on a per acre basis should include minimum floor amounts to ensure equity and participation for farmers with high value but smaller acreage operations. The existing cost-share bonus for beginning farmers and ranchers should be continued. The existing bonus for limited resource farmers and ranchers should be applied instead to socially disadvantaged farmers and ranchers.

▪ ***Soil Quality Payments*** -- With respect to enhancement payments, soil quality payments should be based on a reasonably comprehensive index measuring actual soil quality on the farm. The Soil Conditioning Index (SCI) currently in use measures some characteristics but ignores others, and is based on modeling rather than actual outcomes. The SCI should be complemented with an appropriate CSP program adaptation of the Soil Management Assessment Framework (SMAF) tool. This more comprehensive and realistic tool is particularly crucial to achieve fair and equitable treatment for farmers using diverse sustainable and organic farming systems.

- *Crop Diversity Index* -- In addition to using SMAF, a crop diversity index should be added to the program's eligibility and enhancement payment toolkit. The law specifies special incentives for resource-conserving crop rotations as best management systems that simultaneously address soil quality, nutrient and pest management, and water conservation, but there is not currently an index in use for the purposes of determining eligibility or enhancement payment levels in this regard. Adding a diversity index would address this key oversight and begin to properly reward farmers for adopting long, diversified resource-conserving crop rotations. The farm bill should re-affirm and strengthen the commitment to provide substantial and explicit support for resource-conserving crop rotations on a nationwide basis. The enhancement payments for resource-conserving crop rotations should be calibrated to the degree of diversity and the percentage of total cropland not planted to program crops to provide credit for multiple resource benefits.

- *Organic Enhancements* -- Organic farming systems that meet or exceed the sustainability criteria should be eligible for enhancements in all states and watersheds, not just in a few as is currently the case. NRCS should adopt a national conservation practice standard for organic agriculture as has been done in the northeast states. Each state with advice from their respective state technical committees could modify this national practice standard for the specific conditions of organic production in their states.

- *Energy Enhancements* -- The CSP already includes energy conservation as a priority resource concern. Incentives for on-farm energy efficiency, on-farm renewable electricity generation, and on-farm renewable fuels use should be continued. Alternative farming system approaches that result in energy conservation and reduced non-renewable input purchases should be continued and strengthened. Incentives should be added to reward switching from less conserving crops to more conserving crops (such as from annuals to perennials) and for using wildlife-friendly systems and practices, when producing and harvesting biomass crop feedstocks for renewable energy. Finally, the CSP should promote on-farm energy efficiency with expanded resources for full energy audits including better information about how to improve on-farm energy efficiency from direct and indirect energy sources.

- *Payment Caps* -- The CSP should retain sensible, moderate, loophole-free payment caps. The current dollar limits per farm should not be increased. USDA should be forced to implement existing law with respect to direct attribution of payments to real persons. Within the caps, steps should be taken to ensure that payments cannot be stacked in such a way as to over-compensate for a single practice or activity. As already required by law, USDA should carefully check that practices already receiving payments through other programs are not directly rewarded again through the CSP.

- *On-farm Innovation* -- The existing on-farm research and demonstration and on-farm monitoring and evaluation provisions of the CSP should be fully implemented and offered as an option in each sign-up and each watershed. These two enhancement activities should receive stronger incentives when integrated into a CSP-related educational program and/or a collective, partnership effort on a watershed or sub-watershed level.

4. Program Interactions and Coordination

ISSUE

Two major working lands stewardship programs are available through the farm bill, with the Environmental Quality Incentive Program (EQIP) currently available nationwide and the CSP available, for the time being, in selected watersheds on a rotating basis. If the CSP becomes the effective nationwide green payments program it was intended to be, and if EQIP remains untargeted, as it has been since 2002, it poses some interesting relational questions. It would be possible and quite possibly advantageous to fully integrate the two programs, but even if such an option is not likely, most observers would probably agree that at a minimum the programs should be more rationally coordinated.

Organic producers face a two-fold problem with respect to CSP and other conservation programs. First, NRCS has been slow in recognizing the enormous potential of the growing organic sector in delivering advanced conservation and slow in developing and adapting conservation practice and system standards for organic agriculture. Second, USDA's Agricultural Marketing Service runs the National Organic Program (NOP), including the rules related to the organic farm plan, while NRCS is in charge of organic as it relates to conservation plans. The two agencies, however, have not made significant progress in meshing or coordinating their requirements. The USDA-certified organic farmer is thus left to determine without USDA guidance how the program interactions work.

PROPOSAL

- ***EQIP Integration*** -- Consideration should be given to steps that might help coordinate the Environmental Quality Incentives Program (EQIP) with the CSP. EQIP can help get producers ready for a higher level of conservation demanded by the CSP. EQIP should provide priority in its ranking system for proposals aimed at making the farm eligible for CSP.

EQIP should also be modified to require that all funded projects address priority resource concerns and promote real progress toward, if not actually reach, the quality or non-degradation criteria for the resource concern(s). This change will more closely align the two programs and facilitate enhanced coordination and improved local program delivery. EQIP could also benefit from adapting another key component of CSP for at least some conservation land management practices -- graduated payment levels for increased levels of management intensity and environmental outcomes.

- ***Organic Plan Coordination*** -- There should be a crosswalk between the National Organic Program and the CSP, with a clear mechanism created for coordinated participation in both. Producers with approved organic certification plans should have the option to simultaneously certify under both the CSP and NOP. Organic systems should be added to the field office technical guides to foster maximum environmental benefit from organic systems and facilitate the expanded use of NRCS services in meeting the needs of the steadily growing number of organic producers. Greater interaction between NRCS and the national SARE and ATTRA programs should be encouraged to assist in this crosswalk effort and to help develop appropriate organic conservation system standards.

B. Environmental Quality Incentives Program

ISSUE

Originally established as part of the 1996 Farm Bill, the Environmental Quality Incentives Program (EQIP) was not only significantly expanded in size by the 2002 Farm Bill -- from $200 million a year to over $1 billion a year -- but was also amended to eliminate some of the original measures that helped ensure that the program would focus on priority conservation objectives and overall net improvement of the rural environment. Targeting funding to priority areas, a key feature of EQIP from 1996-2002, was dropped in favor of a more scatter-shot approach. Important conservation planning elements were also removed from the program. Even though USDA retains general conservation planning authority, in most states the EQIP "conservation plan" is now a simple agreement to install single practices with no attempt to assess the net effects of that practice on the resource concerns associated with the farm or local environment and resources.

In addition, a number of changes were made to allow large-scale confined animal feeding operations (CAFOs) to receive high levels of funding to help pay for capital infrastructure costs associated with waste storage and handling facilities. CAFO waste storage and transport capital costs were previously excluded from the program on the grounds that they are a cost of doing business and a source of pollution regulated under the Clean Water Act. CAFO infrastructure costs were also previously excluded from EQIP because paying for new and expanded facilities would transform a conservation program into a production subsidy, and because financing buildings and other large costly structures is generally achieved through loan programs rather than grants.

The EQIP payment limitation, previously not to exceed $10,000 a year or $50,000 over the life of the five-year contract, was increased in 2002 by an extreme nine-fold factor to $450,000 over the life of the six-year farm bill, primarily in order to accommodate the high capital costs associated with CAFO structures and equipment.

The 2002 bill made an important clarification that program rules could no longer allow larger farms to outbid small farms for EQIP contracts by bidding down the percentage of cost share assistance requested. Unfortunately, this provision has often been misinterpreted during the program implementation process to mean that the cost-effectiveness of the proposed conservation project should not be taken into account or that effective low-cost conservation practices could not receive priority. Some corrective action has been taken, but more is needed.

Although the 2002 Farm Bill goals for EQIP directed that USDA give a high priority to sustainable farmers and ranchers, NRCS at the national level has failed to adequately implement this directive. At the state level, though, there has been some progress, particularly with regard to organic production systems. The three-year transition period required by USDA's National Organic Program prior to certification can pose a difficult barrier for farmers and ranchers who are interested in switching to organic production. During the transition period, the producer cannot sell agricultural products into the organic market and therefore cannot benefit from the significant organic price premiums. In addition, increased soil tilth and organic matter, the return of beneficial insects to the system, and other components of established organic systems are not yet fully established, so that yields may dip during the transition period.

Some NRCS state offices have developed specific organic cropping or livestock conservation options under EQIP. For instance:

- Currently Minnesota, Iowa, Montana, and Nebraska have developed, or are in the process of developing, EQIP organic transition incentive payments and outreach to assist farmers and ranchers during the three-year transition period when they are in the midst of changing land management, pest management, and other practices in the transition from conventional to organic production.

- In Minnesota, NRCS has entered into a Memorandum of Understanding on Organic Agriculture with the Minnesota Department of Agriculture, the University of Minnesota, the Minnesota Extension Service, and the Farm Service Agency. The parties of the MOU have agreed to work collaboratively to provide outreach, technical, and financial assistance to the organic producers in the state.

- In addition, states participating in the NRCS Agricultural Management Assistance (AMA) program have developed a conservation practice standard for organic transition for application within the AMA program that can also be applied to EQIP.

PROPOSAL

The restoration of reasonable conservation and payment measures to EQIP would improve the environmental integrity of the program. EQIP should be amended to restore provisions that help ensure its overall effects on the environment are significant and positive. These include:

- ***Restoring a reasonable payment limitation.*** The cap should be no greater than $150,000 in any 5-year period. Direct attribution of payments to real persons should be continued. This measure will provide for a more equitable distribution of EQIP funding and prevent abuse.

- ***Restoring the prohibition of funding for animal waste storage and handling facilities for large-scale concentrated animal feeding operations*** (CAFOs of 1,000 animal units or more as defined by the Clean Water Act). These waste storage and handling facilities are major capital infrastructure, which should not be funded by conservation programs. USDA, the Farm Credit System and other lenders have loan programs for construction, and it is fiscally sound public policy for any such infrastructure to be funded through a loan program which includes a review of the economic viability of the overall operation.

- *Limiting production incentives.* If a complete prohibition on paying for high capital cost infrastructure is not adopted, at the very least the Farm Bill should limit spending on waste storage and handling to projects aimed at mitigating the worst problems with existing facilities, while prohibiting payments for building new facilities or expanding existing ones. Subsidizing industry expansion promotes overproduction and price disruption, while increasing environmental damage. Using EQIP in this manner essentially disguises a production subsidy as a conservation payment.

- *Moving manure storage out of floodplains.* As a matter of sound pollution prevention policy, a prohibition should also be placed on payments to existing CAFOs located in floodplains, unless the assistance is to help re-locate the facility.

- *Restoring progressive conservation planning requirements.* All funded projects should address priority resource concerns and promote real progress toward, if not actually reach, the quality (non-degradation) criteria for the resource concern(s). Re-instituting an EQIP progressive planning requirement will help ensure that practices funded by the program result in net conservation and environmental benefits.

- *Promoting cost effectiveness.* The next farm bill should retain the current provision to prohibit "bid downs" that favor large farms over small and mid-sized farms, but strengthen the language highlighting the importance of assessing the cost effectiveness of EQIP proposals and prioritizing the choice of lowest cost options.

- *Restoring the educational assistance component of EQIP.* Educational assistance grants should be available to Extension, non-profit and community-based organizations, educational institutions, conservation districts, and producer groups to increase conservation education, producer participation, and adoption of high benefit practices and systems, and to help assess the environmental performance of the program.

A new provision should also be added to EQIP directing USDA to evaluate both short-term and long-term costs and net energy consumption of conservation practices. To ensure that EQIP, over the long-term, provides for maximum environmental performance in a cost-effective manner, the new farm bill should establish a priority for EQIP applications which include: (1) conservation practices and farming systems that minimize, over the long-term, the consumption of energy and requirements for maintenance, repair or replacement of high-cost infrastructure; and (2) conservation practices and farming systems that provide for the prevention of pollution and minimize the production of wastes that must be transferred off-farm.

Another new provision should direct USDA to develop and implement an EQIP conservation practice and incentive payment for organic systems. This new nationwide initiative should include funding for farmers and ranchers making the transition to organic agriculture as well as incentives for established organic producers to adopt advanced organic practices or to address additional resource concerns not already covered by their certified organic farm plans.

As NRCS noted in a publication entitled *Organic Agriculture and Resource Conservation*[5], organic growers have experience with crop rotations, cover crops, soil health, and insect and disease control using production methods that minimize harm to the environment and public health. In addition, certified organic farmers and ranchers must develop an organic farm plan, which can serve as the base for an NRCS conservation plan for additional conservation improvements. EQIP could assist many organic producers to go even further than the conservation measures required by their organic farm plan in their efforts to deal with the full range of resource concerns.

(Note: We have expanded on conservation support for organic agriculture in the Organic Transition Support Program portion of the Marketing and Rural Development section below at page 60.)

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[5] NRCS, 2003, see http://soils.usda.gov/sqi/management/org_farm

C. Conservation Title General Provisions

The focus of most recent farm bill conservation titles has been, not surprisingly, on major financial assistance programs. Attention often focuses heavily on specific programs, specific constituencies, and specific resource concerns without sufficient attention to the overall architecture of the conservation effort. A limited number of provisions have nonetheless applied more broadly across the whole gamut of federal conservation programs and activities. In the 2002 Farm Bill, overarching provisions included a Partnerships and Cooperation Initiative, special Beginning Farmer and Rancher provisions, Program Assessment and Evaluation language, and Technical Assistance funding.

The 2007 Farm Bill presents an opportunity to strengthen the entire conservation portfolio by establishing some broad ground rules and creating a stronger foundation for addressing critical agro-environmental issues in a comprehensive fashion through a more complete set of conservation title general provisions.

1. Conservation Objectives/Monitoring and Evaluation/Education

ISSUE

The Soil and Water Resource Conservation Act of 1977 requires USDA to periodically conduct comprehensive appraisals of soils, waters, and related resources within the scope of programs administered by the Department. These appraisals are then to be used to develop a National Conservation Program. Previous appraisals played a major role in subsequent conservation title policy decision making.

The last national program appraisal required by current law is scheduled to occur in 2007, though it is not clear it will be conducted. In any event, the Act comes to an effective close in 2007 unless it is extended by Congress. While farm bills have authorized and funded very significant financial assistance programs since 1985, no formal set of objectives has been established that could be used to track changes in the conditions of natural resources and environmental quality and assess the relative success of the farm bill conservation programs.

The 2002 Farm Bill did include a section authorizing conservation program monitoring and evaluation activities and educational and outreach assistance. Unfortunately, just as the bill was about to be finalized during conference committee consideration the funding that had been set-aside for this purpose was transferred to cover a last minute budget shortfall in the commodity title. Despite the lack of dedicated funding, NRCS has managed to use a small amount of general funding to do some program evaluation work, including the new Conservation Effects Assessment Program (CEAP) activity. This effort, however, has been hampered by the lack of an explicit and sufficiently large funding stream.

PROPOSAL

Reauthorize the RCA: The 2007 Farm Bill should extend and revise the Resource Conservation Act. The farm bill should also provide a mandate for USDA to identify and periodically revise national natural resource and environmental objectives and anticipated outcomes for the farm bill conservation programs as a whole. To the maximum extent possible, the objectives should be expressed in terms of specific and measurable improvements for each major conservation purpose and natural resource concern. The iterative process of developing and refining objectives should include specific indicators to track changes in the status and conditions of natural resources and environmental quality. Extension of the RCA should be closely coordinated with these objective and indicators and also with the current Conservation Effects Assessment Program (CEAP) effort, with both oriented to exploring and analyzing alternative future-oriented approaches to conservation. Such a funded and integrated system could then be used to help inform future farm bill conservation title choices and agricultural appropriations choices.

Monitoring and Evaluation Program: The new farm bill should provide for a comprehensive and integrated national and regional monitoring and evaluation program to assess progress in reaching natural resource and environmental objectives. Mandatory farm bill funding for such a program is essential. A monitoring and evaluation program should be funded as a percentage of total spending for each farm bill conservation program, provided through the Commodity Credit Corporation in much the same manner as technical assistance funding is provided currently. The funded activities should be delivered through cooperative agreements and competitive grants to federal and state agencies, universities and colleges, non-governmental organizations, and producer groups. The system should be coordinated directly with the RCA's National Conservation Plan.

Educational Assistance: An educational assistance component for farm bill conservation programs should be re-instituted. A specific percentage of total mandatory program dollars should be set aside for this purpose. This funding should be available to Extension, non-governmental organizations, community-based groups, educational institutions, conservation districts, and producers, and should be used to increase awareness of conservation program opportunities, enhance producer knowledge of conservation and environmental systems and practices, provide training and decision support aids for sustainable system-based approaches to conservation, and help foster landscape level and watershed and regional cooperative ventures.

2. Cooperative Conservation Partnership Initiative

ISSUE

Section 2003 of the 2002 Farm Bill established a new Partnerships and Cooperation (P&C) Initiative. This authority allows NRCS to designate special projects and enter into stewardship agreements with nonfederal entities, including state and local agencies and non-governmental organizations, to provide enhanced technical and financial assistance through the integrated application of conservation programs. The goal is to help producers solve special resource and environmental concerns in geographic areas of environmental sensitivity such as watersheds and wetlands, or, within a given state or region, to reach particular types of producers willing to undertake specially-targeted intensive conservation initiatives. Producers are encouraged to cooperate in the installation and maintenance of conservation systems that affect multiple agricultural operations, share information and technical and financial resources, achieve cumulative conservation benefits across operations of producers, and develop and demonstrate innovative conservation methods. Partnership approaches are required. The cooperative projects may propose to incorporate special incentives adapted to the particular needs of the project to encourage enrollments of optimal conservation value.

Funding can be provided through any combination of farm bill conservation programs. Any funding derived from the Environmental Quality Incentives Program is limited by statute to not more than five percent of total EQIP funds for the year (approximately $50 million). Other program allocations may be used without any limitation. Projects may combine program objectives. For instance, a project might create riparian buffer areas while conducting intensive nutrient and pest management on land remaining in crop production. Another project might preserve farmland through easements while simultaneously supporting the adoption of whole farm total resource management conservation plans.

Congress wrote the Partnership and Cooperation Initiative as a discretionary authority in the 2002 Farm Bill. Sadly, USDA has chosen not to implement it. In its place, NRCS implemented a small planning grant program it at first called the Conservation Partnership Initiative and, following issuance of President Bush's "Cooperative Conservation" Executive Order, renamed the Cooperative Conservation Partnership Initiative (CCPI). The focus of the CCPI has been to provide resources to conservation districts and other local groups to help them develop plans for cooperative projects that might ultimately be implemented if funding were to be made available. The planning grants are useful as far as they go, but have left many high quality cooperative projects that are ready for implementation without an identified source of federal funding. Allowing the P&C Initiative to die on the vine is particularly ironic given the emphasis given by this Administration to cooperative conservation projects.

PROPOSAL

The Partnership and Cooperation Initiative should be reauthorized as the Cooperative Conservation Partnership Initiative and significantly strengthened in the next farm bill. The new CCPI will support special projects and initiatives through which multiple producers will address specific resource concerns or opportunities related to agricultural production on a local, state, or regional scale. The CCPI should be implemented on a competitive basis through intermediaries including producer associations, non-governmental organizations, conservation districts, watershed councils, educational institutions, and state and local agencies. The full range of resource concerns should be eligible, with a clear priority for projects which simultaneously address rural community development opportunities and environmental enhancement.

The CCPI should be a mandated initiative and be funded through existing state allocations for the full range of farm bill conservation programs. Up to 20 percent of a state's total allocation should be available for cooperative conservation projects, with considerable flexibility to match program funding streams and mechanisms to tackle specific local problems. Funds for selected projects should generally include financial and technical assistance, education and outreach, and monitoring and evaluation.

The bulk of potential funding should be administered on the state level, with significant input to the state NRCS office from the State Technical Committees. Requests for applications and project evaluation factors should be developed through consistent national guidance. Priority should be given to projects that have solid plans already in place and are ready to move into the implementation phase, though a small set-aside could be used for planning grants similar to the current CCPI planning grant program. A small portion of total funding should be reserved at the national level to help support larger, multi-state projects or special national demonstration projects.

All cooperative project proposals should include:

- a clear statement of the problems to be addressed and opportunities to be pursued
- multiple collaborating partners and local leadership
- strong conservation planning requirements and performance measures, and
- detailed monitoring and evaluation plans.

Points should be awarded based on the:

- number of resources being addressed
- contribution to community development objectives
- intensity of agriculture's contribution to the resource and community development concerns and opportunities
- quality of baseline data
- degree of expected producer participation
- use of innovative practices and activities and/or program design
- feasibility of projects goals and outcomes
- extent and depth of the partnership, and
- quality of the monitoring and evaluation plan.

Preference should be given to projects that can leverage up to 25 percent in financial and in-kind support, but neither the absolute size of the project nor the size of the match should be considered beyond this basic preference. Preference should also be given to projects with innovative outcome-based methods or measures that might if successful be replicated elsewhere. Special efforts should be made to include beginning and socially disadvantaged producers.

Preference should be given to projects that involve partnerships of producers, local governments and local organizations focused on making rural communities attractive places to live and visit by providing landscape and habitat amenities, addressing community needs such as flood control through environmental restoration, or restoring resources and then providing for public access for recreational activities. Growing rural communities are largely those with environmental amenities. In the future, uncrowded natural space may become a key environmental amenity, one many farm and ranch communities could provide. The CCPI should include specific authority allowing NRCS to make bonus payments to farmers or ranchers in a CCPI project who restore habitat as a community development asset, provide public access to the enrolled land, or address other community needs.

3. Incentives for Innovation and Performance

ISSUE

Under current Environmental Quality Incentives Program (EQIP) regulations, the national NRCS office holds back a percentage of funds at the national level to award to states as performance incentives. Assessments are made about state office effectiveness in implementing the program, addressing national priorities and measures and state and local resource concerns, using Technical Service Providers, and serving limited resource and beginning farmers. Several awards are made each year to states deemed by headquarters to have achieved a high level of effectiveness in program delivery.

PROPOSAL

The 2007 Farm Bill should extend the current EQIP performance incentive concept -- holding back a small percentage of funds at the national level to be awarded to states on the basis of their effectiveness in delivering programs -- to all programs delivered at the state level via state funding allocations.

The farm bill should specify that incentives may be awarded on the basis of adoption of:

- superior performance in reaching natural resource and environmental objectives
- an effective emphasis on sustainable agricultural conservation systems approaches
- strong inclusion of beginning, socially disadvantaged, and tribal farmers
- development of tailored organic farming system and organic transition support program delivery methods
- innovative strategies that combine rural community development and conservation objectives
- effective use of Technical Service Providers
- development of exceptional education and outreach initiatives and/or program assessment and evaluation initiatives
- outstanding projects using the Cooperative Conservation Partnership Initiative, and
- strong, effective inclusion of State Technical Committees in informing state level decisions.

4. Beginning and Socially Disadvantaged Farmer and Rancher Conservation Incentives

For a discussion of beginning and socially disadvantaged farmer and rancher stewardship incentives, see the subsection on conservation under the new farmer and rancher initiative discussed above, at page 13.

5. Streamlining Program Delivery through Conservation Planning

ISSUE

Some conservationists argue we already have too many farm bill conservation programs. Some argue this point from the standpoint of the farmer facing the bewildering array of programs with separate rules, eligibility criteria, and enrollment schedules. The producer ultimately must integrate resource concerns and prescriptions for the farm or ranch, yet there is a tendency to deliver programs as if they are separate fiefdoms. Others argue the streamlining point from the standpoint of sustaining a broad-based coalition capable of defending farm bill conservation spending over the long haul, annual appropriations bill by annual appropriations bill. If the conservation community remains splintered by specialized programs, the chances for a strong united front declines, and conservation funding suffers as a result.

The 2002 Farm Bill required USDA to submit a report to Congress on the issue of program redundancy and opportunities for consolidation. The report suggests in only very broad outlines what a consolidation effort might look like, but offers few details in what amounts to only a few short pages of description. It suggests maintaining the CSP as a separate program, but with a streamlined payment structure. It suggests consolidating EQIP, Ground and Surface Water Conservation, Wildlife Habitat Incentives Program, and Agricultural Management Assistance, and adding forestry incentives, into a single cost-share assistance program. The plan also suggests consolidating the Farm and Ranch Lands Protection Program, Grasslands Reserve Program, Healthy Forest Reserve Program, and Wetlands Reserve Program into a single Conservation Easement Program.[6]

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[6] USDA, *Report to Congress Pursuant to Section 2005 – Reform and Assessment of Conservation Programs*, August 2006.

Streamlining is conceptually quite appealing, and while complex is quite likely achievable as a practical logistical matter. As a practical political matter, however, it will be very difficult to achieve. A more modest and achievable goal might be to keep the conservation title from becoming any more splintered than it already is, and then trying to coalesce around a more streamlined delivery system. In other words, try to make conservation programs in reality what they are so often touted to be rhetorically, namely interdependent components of a mutually supportive portfolio.

At one time, comprehensive conservation planning was at the heart of technical and financial assistance delivery. With the advent of conservation compliance, followed by the start of a large number of farm bill financial assistance programs and increased conservation dollars, comprehensive conservation planning has become more and more divorced from program delivery. Opportunities still exist, however, to give whole farm, total resource management planning a more prominent role and in so doing, increase the effectiveness of the farm bill programs. Interestingly and somewhat ironically since it once was the core of the agency's mission, NRCS started a pilot project in FY 2006 to assess the effectiveness and efficiency of having a specific conservation planning signup period. The pilot is testing whether conservation planning in advance of land retirement and working land program signup will enable farmers and landowners to plan more realistically and effectively for conservation program financial assistance, while also allowing the agency to manage the work load of conservation professionals more efficiently. NRCS has also instituted some common easement program provisions including title clearance, valuation, hazardous waste review, and monitoring and enforcement rules. Efforts such as these are helpful and the farm bill should push the envelope even further.

PROPOSAL

Comprehensive conservation planning should be made a basic entry point for farmers and ranchers to access multiple conservation financial assistance programs. After assessing their resources, status, problems and potential solutions in a conservation plan, farmers and ranchers can then be guided to apply for the appropriate incentive, cost-share, or easement programs that best meet their needs. As an incentive for superior stewardship planning, the farm bill should provide for automatic eligibility to the relevant financial assistance programs if the plan addresses all resource concerns and equals or exceeds the applicable sustainability or quality criteria. Rather than viewing whole farm total resource management planning as a luxury we cannot afford, it should be put back into the driver's seat and used to streamline our approach to conservation program eligibility.

The farm bill financial assistance programs should be viewed as interdependent components of a mutually supportive portfolio. In order to streamline program delivery and make the programs as farmer-friendly as possible, the farm bill should direct USDA to establish:

- A unified sign-up, application, conservation plan, and contract process.
- Continuous sign-up procedures wherever appropriate; off-season enrollment periods, with adequate advance notice, when continuous sign-up is not an option.
- Whole-farm conservation planning as an entry point into all programs.
- Extra ranking points and incentives to reward participants for first developing whole farm total resource management conservation plans.

6. Conservation Practices and Activities for Sustainability

ISSUE

Current conservation program financial investments are often constrained by two related problems:

- First, at the farm level, program choices and program delivery often focus too much on a single resource or even a single practice. Moving from a practice approach to a systems approach is long overdue. Adoption of a sustainable farming and conservation systems approach would greatly improve the short and long-term value of the technical and financial investment. Recognizing this fact, a year ago

NRCS formed a partnership with USDA's Sustainable Agriculture Research and Education (SARE) program to make use of SARE expertise in the process of revising national conservation practice standards. SARE, established by the 1985 and 1990 farm bills, is the preeminent USDA program for exploring practical, research-based approaches to sustainability.

- Second, beyond the farm level, there is a tendency to single out practice-based changes to improve conservation performance given an existing farming system, regardless of whether the cumulative impact of widespread adoption of the practice(s) without any other changes to the underlying farming system actually would or would not solve major resource concerns and environmental problems. Automatically assuming no changes in the underlying farming system is fundamentally the wrong point of departure for technical and financial assistance programs if their aim is to actually solve resource concerns.

PROPOSAL

The conservation title should establish a sustainable conservation systems emphasis as an overarching conservation title-wide priority and should require greater attention across all the financial assistance programs to developing sustainable farming systems that solve macro-level agro-environmental problems.

In addition to a clear policy statement to this effect, a practical first step could also be endorsed, namely fostering a partnership between the Cooperative State Research, Education and Extension Service's SARE program, Integrated Organic Program, and Integrated Pest Management program, the Agricultural Research Service's national program for Integrated Agricultural Systems, the ATTRA program, and NRCS. This partnership should assist in the practice standard revision process and in redesigning the technical conservation delivery infrastructure to emphasize a sustainable systems-based approach integrating ecological, economic and social considerations to solve agro-environmental problems.

7. Technical Assistance Funding

ISSUE

The 2002 Farm Bill contained a major new point of departure for funding the technical assistance necessary to deliver farm bill conservation programs and achieve the programs' environmental objectives. All the major farm bill programs were to be funded directly from the Commodity Credit Corporation with mandatory farm bill funding, including the provision of technical assistance. Previously, most technical assistance for farm bill program delivery was subject to annual appropriations. With the near doubling of total funding contemplated by the 2002 Farm Bill, this was no longer practical. Unfortunately, the Administration at first failed to fully implement the new provision. But after several twists and turns, Congress in 2004 took the necessary action to re-deliver its 2002 Farm Bill decision in a way that required Administration compliance.

PROPOSAL

The new farm bill should reaffirm the 2002 Farm Bill decision (re-iterated in 2004 legislation) to fund technical assistance for farm bill conservation programs as a percentage of each program's total program funding stream, using Commodity Credit Corporation dollars.

8. State Technical Committees

State Technical Committees (STCs) are the bridge between national and local conservation efforts and the entity through which to reach consensus on implementation priorities, funding allocations, special projects, and program implementation options at the state level. The Committees were established under the 1990 Farm Bill and expanded in representation and responsibilities under the terms of the 1996 Farm Bill. In addition to Federal, State, Tribal, and local agencies, the State Technical Committees include agricultural producers and nonprofit organizations with demonstrable conservation expertise and other persons knowledgeable about conservation techniques and programs. Some STCs have specialized subcommittees, made up of STC members, to analyze and refine specific issues for particular programs.

The responsibilities of the State Technical Committee include recommendations on technical matters such as guidelines for evaluating new conservation practices and systems not already described in field office technical guides, wetland restoration and mitigation requirements, conservation compliance determinations and appeals, and haying and grazing restrictions to protect wildlife. The STCs also offer recommendations on program implementation decisions, including program priorities and ranking systems, for all the major farm bill conservation programs.

PROPOSAL

State Technical Committee implementation at the state level is very uneven, running the gamut from exceptional to nearly non-existent and from fully transparent and accountable to inaccessible. The new farm bill should strengthen and clarify the role of the STC, improve accountability procedures from the agency back to STC participants, and create incentives and penalties, respectively, for strong and weak state use of the STC to spur improved performance.

The Local Work Groups which oversee implementation at the county and local level should be re-constituted as local subcommittees of the State Technical Committees and thus opened to the same categories of membership as the STCs and not subject to the Federal Advisory Committee Act restrictions that currently prevent full involvement by farm and conservation organizations.

E. Conservation Compliance

ISSUE

Compliance provisions require farmers to meet a minimum standard of environmental protection on environmentally sensitive land as a condition of eligibility for many Federal farm program benefits. To be eligible for a USDA commodity or conservation program benefit or a Farm Service Agency loan, USDA program participants must apply an approved conservation system that provides a substantial reduction in soil erosion or a substantial improvement in soil conditions on a field or fields that contain highly erodible land. Participants must also certify that they have not produced crops on wetlands converted after December 23, 1985, and did not convert a wetland to agricultural production after November 28, 1990.

Under the "conservation compliance" provision, farmers subject to the rules must implement and maintain an approved soil conservation plan on highly erodible land (HEL) that is currently in crop production and was cropped prior to 1985. Under the "sodbuster" provision, before producers clear, plow, or otherwise prepare HEL areas not presently under crop production for planting, they are required to develop and implement a conservation plan on the affected acreage that will limit erosion to not greater than the soil loss tolerance level, before bringing land into production. Under the "swampbuster" provision, farmers will lose program benefits if they fill or drain wetlands or expand the scope of existing drainage on farmed wetlands.

There is considerable evidence that the compliance provisions have helped to significantly reduce erosion and wetland conversions. The existence of conservation compliance rules not only improves natural resource protection but also acts as a partial damper to overproduction and low prices. According to USDA's Economic Research Service, compliance rules keep some producers from expanding crop production onto highly erodible land or wetlands. Without compliance requirements, 7 to 14 million acres of highly erodible land and 1.5 to 3.3 million acres of wetlands that are not currently being farmed could be profitably farmed under favorable market conditions.[7]

As originally envisioned, conservation compliance systems would be designed to reduce soil erosion to the soil loss tolerance level. However, for a variety of reasons, before conservation compliance was fully implemented, USDA determined that farmers should be allowed to meet compliance requirements by designing conservation systems to obtain significant and

[7] Claassen, Breneman, Bucholtz, Cattaneo, Johansson and Morehart, *Environmental Compliance in US Agricultural Policy: Past Performance and Future Potential*. Economic Research Service, Agricultural Economic Report No. AER832, May 2004. www.ers.usda.gov/publications/aer832/

economically feasible erosion reduction even if the result was significantly above the soil loss tolerance level. This change was later codified, placing farmers who had complied with the original stiffer rules by adopting basic conservation systems at a competitive disadvantage with those who adopted the so-called alternative conservation systems under the looser and more subjective rules.

At one time crop insurance subsidies also triggered conservation compliance requirements, but Congress retracted that policy just as it also very substantially increased the level of crop insurance subsidies, thus increasing the potential for the risk-reducing nature of insurance to promote production on marginal and environmentally vulnerable lands.

A 2003 US Governmental Accountability Office (GAO) investigation of compliance implementation revealed a multitude of problems resulting in weakened enforcement by USDA. According to the GAO:

> *"USDA's Natural Resources Conservation Service has not consistently implemented the 1985 Food Security Act's conservation provisions. Inconsistent implementation increases the possibility that some farmers receive federal farm payments although their soil erodes at higher rates than allowed or they convert wetlands to cropland… According to GAO's nationwide survey, almost half of the Conservation Service's field offices do not implement the conservation provisions as required because they lack staff, management does not emphasize these provisions, or they are uncomfortable with their enforcement role… Finally, the Farm Service Agency, the USDA agency responsible for withholding benefits for violations identified by the Conservation Service, often waives these noncompliance determinations without adequate justification. Without support from the Farm Service Agency, the Conservation Service's field staff has less incentive to issue violations."*[8]

While soil erosion has been reduced substantially since the 1980s, progress has leveled off in recent year. Nearly half of all land with excessive erosion is not technically classified as highly erodible land, and so is outside the purview of conservation compliance rules as currently written. Moreover, at least one-third of all land that is eroding at tolerable rates nonetheless has relatively poor soil quality.

PROPOSAL

The 2007 bill provides an important opportunity to reassess and improve the conservation compliance regime first established in 1985 to reduce erosion and protect wetlands. The new farm bill should narrow the existing waiver authority and strengthen waiver guidelines and accountability to eliminate the kind of abuse documented by the GAO. Waivers should be made subject to independent review.

Conservation compliance should be re-linked to the crop insurance program to help ensure the over $3 billion a year in taxpayer funds used each year to discount the cost to the farmer of this risk management program does not inadvertently increase erosion or wetland loss.

In light of the fact that nearly half of all excessive erosion is occurring on non-HEL, compliance requirements should also be extended to all cropland receiving program and insurance benefits and eroding at excessive levels.

In order to protect prairie, critical habitat and biodiversity, reduce the cost of subsidy programs, and take the pressure off of already over-subscribed conservation incentive programs, sodbuster rules should be strengthened by prohibiting all commodity, insurance, and conservation subsidies on all native prairie and permanent grasslands without a cropping history if such land is cropped in the future. This "sodsaver" proposal is discussed in more detail in the commodity program reform section above, at page 17.

Finally, consideration should be given to expanding compliance to include nutrient leaching and runoff from land enrolled in federal farm programs. A basic level of nutrient management could be required as a condition of program

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[8] GAO-03-418, *USDA Needs to Better Ensure Protection of Highly Erodible Cropland and Wetlands.* Report to Ranking Democratic Member, Committee on Agriculture, Nutrition, and Forestry, US Senate, April 2003. www.gao.gov/new.items/d03418.pdf

eligibility, with higher levels of nutrient management, cover cropping, and buffer practices encouraged by conservation technical and financial assistance programs.

F. Wetlands Reserve Program

ISSUE

The nation's wetlands provide critical ecological functions including fish and wildlife habitat, natural water quality improvement, water retention for flood control, shoreline erosion protection, and opportunities for recreation and aesthetic appreciation. Protecting wetlands can, in turn, protect the health and safety of our nation's communities by reducing flood damage and preserving water quality. Historically, agricultural activities have been the primary source of the loss of wetlands, with estimates in the 1980's that about 80 percent of wetland loss to that point in time was due to conversion for agricultural use. From the mid-1950's to the mid-1970's, USDA's Agriculture Conservation Program considered tile and open-ditch drainage to be conservation practices and the program accounted for the loss of about 550,000 wetland acres per year.

By the 1980's, however, environmental and sustainable agriculture organizations convinced many in Congress of the value of wetlands. The Wetlands Reserve Program (WRP) was established in the 1990 Farm Bill. Under WRP, USDA paid landowners of wetland converted to agricultural use a share of the costs to restore the wetland and also purchased a permanent or long-term conservation easement on the land. The program was expanded in the 1996 Farm Bill with USDA authorized to acquire a maximum of 1.075 million acres. In the 2002 bill, the national aggregate cap for WRP was set at 2.275 million acres nationwide, with USDA authorized to enroll up to 250,000 acres per year. Since 2002, however, the WRP annual acreage goal has been cut in the congressional appropriations process, with the number capped at 150,000 acres in Fiscal Year 2006.

PROPOSAL

The Wetlands Reserve Program should be retained, with an enrollment directive of no less than 250,000 acres per year nationwide and a strong priority for permanent easements. Given the current unfunded backlog of WRP applications representing nearly 500,000 acres, a special provision should be added to front load additional acres and dollars during the first two years of the new farm bill to eliminate or at least dramatically reduce the backlog and allow farmers to move forward with their restoration plans without further delay. A new provision should direct USDA to offer incentives to landowners to allow public access to the land as part of community development plans for hiking, biking, hunting, fishing, bird watching, and other public recreational amenities that do not conflict with the conservation goals of the WRP.

G. Conservation Reserve Program

ISSUE

The Conservation Reserve Program (CRP) is the largest federal agricultural conservation program, utilizing over $2 billion per year to retire roughly 35 million acres of farmland from production. Originally authorized in the 1985 Farm Bill, CRP is a voluntary program that provides payments to landowners to remove environmentally sensitive land from production for 10-15 years at a time and provides cost-share for the establishment of conservation practices to enhance soil quality, water quality, wildlife habitat, and air quality.

Since its original enactment, two additional program components have been added to the CRP. The continuous sign-up CRP (CCRP) targets the enrollment of acreage for the establishment of specific high priority conservation practices, including conservation buffer strips, which do not require the setting aside of whole farms or whole fields to deliver important environmental benefits. The Conservation Reserve Enhancement Program (CREP) allows USDA to enter into an agreement with a state to focus CRP resources on specific geographic areas or resources issues identified by the state. In addition, the state provides state resources to increase incentive payments, purchase permanent easements, or undertake other conservation measures. In some states, non-profit organizations are also involved in funding and implementing CREP agreements.

The 2002 Farm Bill authorized an increase in total enrolled CRP acreage from 36.4 million acres to 39.2 million acres, while retaining a limit on local enrollment at 25 percent of the cropland in a given county. Some economic uses of CRP land were also authorized, including haying and grazing and the construction of wind turbines. These economic uses are limited to avoid significant interference with the conservation purposes of the CRP and the rental payment for the CRP is reduced to reflect the increased income from the activity.

A provision was added to discourage "sod-busting" by limiting eligibility to land that was cropped 4 of 6 years preceding enactment of the 2002 Farm Bill. This makes it more difficult to cultivate land primarily to gain access to the program. In addition, a small pilot program for the enrollment of isolated farmable wetlands was increased to a nationwide program with an enrollment cap of 1 million acres.

The CRP has reached a critical juncture, as 400,000 CRP contracts on 28 million acres were scheduled to expire between 2007 and 2010. In light of this situation, USDA has undertaken an initiative to re-enroll the highest ranking land and to extend other contracts for a period of years to allow them to re-bid into the program at a later date. But it remains clear that millions of CRP acres will be coming out of retirement and back into agricultural production in the coming years. If current trends continue, at least four million acres will leave the program in the next couple of years, and it is quite possible the current trend will accelerate due in part to the boom in the ethanol market. A comprehensive approach is needed to deal with the transition of CRP land to agricultural production that can maximize the preservation of conservation measures established when the land was enrolled in the CRP.

The current federal and state policies of promoting and subsidizing agricultural biofuel production provide a strong incentive for CRP landowners to return land to agricultural production. Currently, this incentive is focused on a return to row crop production because most US biofuel production is ethanol produced from corn stocks, with a smaller amount of biodiesel produced from oilseeds. Research and development of biofuels from a more diverse array of crops, including switchgrass and other perennials, is accelerating, which could result in the production of biofuels from a wider array of sources in more sustainable systems. A switchgrass-biomass pilot program within the CRP has already been undertaken in Iowa.

PROPOSAL

We continue to strongly support the continuous sign-up CRP (CCRP) and the Conservation Reserve Enhancement Program (CREP) component of CRP. We also support continuation of the general sign-up, whole farm/whole field CRP component, but urge that a variety of improvements be made as noted below.

Continuous sign-up CRP and CREP

We support the reservation within the CRP of at least 7 million acres or 20 percent of total CRP acreage, whichever is greater, for CCRP and CREP enrollment. The CRP should be managed to ensure that no fewer than 500,000 acres are available each year for CCRP and CREP enrollment. USDA should apply all the special incentives it currently offers for some continuous sign-up practices to all continuous sign-up practices, rather than excluding contour grass strips, wetland buffers, shelterbelts, wildlife buffers, and other specific practices. All areas of the country should have access to CCRP, with retention of space for the CCRP within the 25 percent cap on a county's cropland enrolled in the program overall. In addition, states should be authorized to petition USDA's Farm Service Agency to allow continuous enrollment of land with rare and declining habitat

CRP General Sign-up

The CRP should be retained as a major agricultural land retirement program with improvements to the environmental benefits index, continuation of competitive bidding, and inclusion of environmentally benign measures for dealing with invasive species. To improve overall cost effectiveness and to encourage enrollment of highly sensitive land in high land price areas, significantly greater weight within the Environmental Benefits Index (EBI) should be given to discounted bids below local rental rates.

With the repeated renewal of many CRP contracts, some now re-enrolling for the third consecutive 10-year period, we believe the time has come to provide a voluntary permanent or long-term easement option within the CRP. We strongly support the inclusion of permanent and long-term conservation easements on particularly sensitive land as a new option for landowners within the CRP. This measure would create a long-term savings for the taxpaying public while protecting areas that truly need to be retired from production to provide important environmental benefits. Providing long-term contracts and/or permanent easements would also provide enhanced environmental benefits since wetland and rare and declining habitat restorations gain in complexity and diversity as they mature.

Haying and grazing on CRP land should continue to be allowed, but rather than being based on a rigid and faulty national prescription as the haying and grazing rule is currently interpreted by FSA, it should be based on sound science under approved conservation plans, with safeguards for protecting wildlife habitat and other CRP conservation objectives, and tailored to the local climate, ecological requirements of specific wildlife species, and other local conditions. Agriculture and resource conditions are too varied for a one-size-fits-all top down prescriptive approach.

The CRP should include incentives for landowners to allow public access to the land as part of community development plans for hiking, biking, hunting, fishing, bird watching, and other public recreational amenities that do not conflict with the conservation objectives of the CRP conservation plan.

Transition Strategies for CRP Land

The new farm bill should direct USDA to implement a number of measures for maximizing the conservation values on CRP land which is coming out of contract and back into agricultural production. These measures include:

- Strongly encouraging whole field contract holders who intend to leave the CRP to consider, where appropriate, retaining partial field conservation practices and buffers through the CCRP.

- Actively promoting and facilitating enrollment of the former CRP land in the Conservation Security Program to retain many of the natural resource and environmental benefits as the land returns to agricultural production.

- Promoting the use of the Environmental Quality Incentives Program, Wildlife Habitat Incentives Program and other programs to provide cost-share and incentives for establishing new sustainable farming systems, such as managed rotational grazing, which are in concert with wildlife protection and the environment.

- Encouraging transfer of former CRP land to new organic producers, utilizing the proposed Organic Transition Program (see page 60) where appropriate to take advantage of the environmental protection afforded by organic farming systems and the ability to certify the land without the normal three year wait.

- Providing incentives to encourage retirees or non-farming heirs holding CRP contracts to make arrangements to transfer the land to beginning farmers and ranchers committed to using superior conservation systems.

H. Agriculturally-Based Energy Conservation and Production

ISSUE

As America responds to pressing energy and climate dilemmas, swift progress toward greater energy independence through increasing renewable energy production is critical. It is equally critical, however, that renewable energy production be pursued in manner that enhances rural communities and the environment. The next farm bill should tailor incentives to ensure that the emerging renewable energy industries benefit US family farmers and rural communities while safeguarding soil, water and biodiversity. To achieve these mutually supportive goals, the farm bill should include provisions that:

- promote domestic production of bio-fuel crops to meet growing demand;
- foster local ownership of and investment in processing facilities to benefit local economic development; and
- encourage sustainable agricultural production practices to ensure long-term ecological

integrity for future generations of farmers producing renewable energy crops.

The conservation of natural resources, including soil quality, water and air quality, wildlife habitat and native biodiversity, must be a major focus of agriculturally-based energy production systems. Currently, the primary agricultural biofuel produced in the US is ethanol from corn, with a smaller amount of biodiesel from soybeans and other oilseeds. Both the federal government and many state governments are setting ambitious corn-ethanol and oilseed-biodiesel production goals with insufficient attention paid to the sustainability and environmental impacts of this biofuel production.

At the same time, however, research and development on cellulosic ethanol production is accelerating with the possibility of agriculturally-based energy production using a wide array of plants and cropping systems, including switchgrass, willows, and other grasses, forbs, and woody plants. There is now widespread anticipation of commercialization of integrated bio-refineries and agricultural supply networks for feedstock production to support a new cellulosic ethanol industry and a growing bio-economy. In addition, wind-based energy production and solar production in rural areas is providing energy for individual farms, local communities, and the large regional electricity markets. .

As this new array of energy and fuel production based on agricultural and rural land is emerging, the time is right to ensure that the environmental performance of current agricultural energy systems are improved and that future agriculturally-based energy is produced in sustainable systems that minimize environmental degradation and are designed to take advantage of the emerging opportunities to improve soil health, water quality and wildlife habitat by integrating diverse, perennial energy crops into our agricultural systems. A first step in developing sound policy for agriculturally-based energy production is the development of general principles for sustainable agriculture and energy.

Members of the Sustainable Agriculture Coalition have prepared a position paper on Renewable Energy from Farms, which is posted on the web at www.sustainableagriculturecoalition.org. This paper includes general principles that provide a base for sustainability criteria which can be used as benchmarks in evaluating which agricultural production systems should receive public promotion and incentives. Many of these criteria apply to agricultural systems for the production of food and fiber, as well as the production of agriculturally-based biofuels.

The following is a basic list of these general principles for sustainable agriculturally-based energy production:

- **The immediate priority of any energy policy is to manage current energy usage through energy efficiency and conservation.** Reducing energy waste is common sense, saves money, and helps protect the environment. Numerous studies have shown that improving the efficiency with which energy is used is the cheapest and quickest energy "source." The production of energy from any system, including agriculture, places burdens on the environment and natural resources. These national resources should not be squandered in poorly-designed buildings, vehicles, and other devices.

- **Development of new energy sources should not only be ecologically sound, but socially responsible and locally managed when possible.** A farm-based sustainable energy system has great potential to be naturally responsive to the economic needs of rural communities and family farmers. The public good of a farm-based energy system must meet the same criteria of a sustainable agriculture system: economically viable, locally managed, ecologically sound, and socially responsible. The appropriate scale of new renewable energy systems must also be considered.
- **All energy developments, including renewable energy, should go through individual site and environmental review to insure that ecological impacts are minimized.** Impacts need to be considered on: 1) parks and recreation areas; 2) wildlife and wetlands; 3) migratory bird patterns; 4) landscape preservation; and 5) other environmental issues of local concern.

- **Biomass should generally go to the highest sustainable use, which may not be energy production.** Biomass (that is, plant material) that could be burned for energy can in some cases also have other uses, such as fertilizer or bio-products. Policies should avoid providing incentives for biomass energy production that does not prove to be a prudent use.

- **Biomass byproducts should be utilized in an ecologically sound and sustainable way.** Location of biofuels plant and attendant livestock feed supply should further sustainable livestock production, not factory farm production.

- **Biomass energy should be grown or produced in a sustainable way that provides net environmental benefits.** Biomass energy crops should be grown and harvested in a way that embodies best stewardship practices to maintain or improve air, water and soil quality. Criteria for judging sustainable energy production include:

  a. **Impact on water quality**. Surface and ground water should not be polluted with sediments, pesticides, nutrients, or any other waste products. It should not negatively affect the aquatic ecosystem. It should not consume water beyond replacement levels.

  b. **Impact on soil quality**. Soil quality should not be degraded. Soil organic content, water retention, and fertility should be improved.

  c. **Effect on wildlife**. There should be little or no detrimental effect on wildlife on land where biomass is grown, relative to alternate economic uses for the land.

  d. **Effect on air quality**. Biomass energy production should result in a net increase in air quality, from net reduction in such air pollutants as nitrogen oxides, particulate matter, and carbon dioxide.

  e. **Net energy balance**. More energy should be released through biomass energy use than is consumed in producing it over its complete lifecycle. This includes energy consumed from planting, cultivating, fertilizer and pesticide application, harvesting, and transportation.

  f. **Diversity**. Biomass energy production must avoid the monoculture trends of industrial agriculture. Crop rotations must be incorporated at the landscape scale in order to ensure sufficient diversity of species to attain soil quality, wildlife habitat, and ecosystem health.

  g. **Adequate income**. Federal farm policies must be adopted to insure farm income from biofuels is adequate to insure sustainability.

PROPOSAL

Sustainability Criteria

Sustainability criteria should guide all farm bill conservation and energy title programs that seek to promote renewable energy. Within each program, the evaluation and ranking criteria used to make individual awards, grants, and loans should also use the same basic set of sustainability criteria as a guide. We recommend that general sustainability criteria be written into the farm bill, with direction to USDA to develop more detailed guidance and to incorporate the criteria directly into program operations for all energy programs and all conservation or rural development programs with significant energy emphases.

Farmer and Local Ownership

Bio-energy and bio-refinery programs authorized in the farm bill should include a major focus on local and producer ownership, creating win-win situations by bringing energy goals in line with family farm and rural community development objectives. Cost share and incentive payments, as well as subsidized loan programs, should be targeted to facilities that are either locally-owned rural small businesses or at least 51 percent farmer-owned, as well as to facilities that utilize feedstock from perennial biomass crops meeting sustainable crop production principles and criteria.

CSP Energy Emphasis

The inclusion of energy as a resource of concern within the Conservation Security Program (CSP) is an important innovation that should be continued. In advancing general principles of sustainable energy production, the CSP is ideally suited to provide conservation technical and financial assistance to the wide array of agriculturally-based energy production systems that will emerge in the future, especially systems with a diversity of crops and the incorporation of sustainable livestock and poultry production into the system. The CSP's comprehensive conservation planning elements and the flexibility and incentives for farmers to move through the program tiers can be adapted to sustainable energy conservation and production systems. The CSP legislation also provides that farmers and ranchers should receive incentive payments to participate in demonstration and research on sustainable production systems, a provision that should be quite applicable to agriculture systems approaches to the production biofuels and other agriculturally-based energy options.

Sustainable Agriculture Energy Innovation Grants Program

In order to adequately assess the conservation and environmental performance of emerging agriculturally-based cellulosic energy production systems as these systems move toward commercial scale, it will be advantageous to have a more focused Sustainable Agriculture Energy Innovation Grants Program to determine the ecological and economic feasibility of producing energy from a new array of feedstock crops. This innovation program should be nationwide and focus on a wide variety of cropping systems, with a priority for diverse systems based on perennial plants. It should be project-based and administered as an annual national competition. The innovation grants should be closely linked with the Conservation Security Program, either as an innovation grant subset of the basic CSP program or at least so that qualifying farmers participating in an innovation grant program project are also able to enroll in the CSP.

The program would encourage the development of energy production that responds to regional needs and capabilities rather than creating agricultural energy production centers concentrated in a few pockets of the country. This approach will increase regional economic equity, conserve energy by reducing the use of energy for the transportation of products such as biofuels, and help ensure that energy production is each region is compatible with the region's goals related to resource conservation and environmental protection.

Emphasis would be placed on converting existing cropland to biomass production. Eligible crops would be limited to natives. The innovation program would include a cropping history requirement for cropland similar to the cropping requirement in the CRP and CSP programs. Grassland conversion would not be allowed. Woody biomass would be allowed only on historical forestland, to prevent inappropriate plantings.

With respect to land under contract in the Conservation Reserve Program, if the CRP management practices approved for a specific local region allow for periodic mowing as part of the biologically and climatically appropriate management regime, then by-product of that approved management practice should be allowed for use as biomass and be eligible for inclusion in an innovation grant project. The controlling factor should be appropriate resource management practice, however, not the production of biomass. The frequency of the practice should be based solely on professional determinations of appropriate management to improve the resource and advance the contract's objectives.

Renewable Energy and Energy Efficiency Program (Section 9006)

The 2002 Farm Bill's Renewable Energy Systems and Energy Efficiency Improvements Program (Section 9006) offers competitive grants and loan guarantees to farmers, ranchers, rural small businesses, and rural electric cooperatives showing a demonstrated financial need, to assist participants in making energy efficiency improvements within their present operations or creating renewable energy production systems. The grant portion of Section 9006 was first implemented in 2003, and loan guarantees were offered beginning in 2005. To date, a total of 844 grants and loan guarantees have been awarded, equaling $87.3 million and $34.3 million, respectively. For fiscal years 2003-2006, the program has been fully funded at $23 million. The vast majority of the funds have been awarded for renewable energy project grants, with fewer and smaller awards for energy efficiency.

The Renewable Energy Systems and Energy Efficiency Improvements Program should be reauthorized and expanded in the 2007 Farm Bill. Demand for the program presently far exceeds the funds allocated and can be expected to continue growing, so program funding should be significantly increased. A priority should be given to projects that focus on energy efficiency for small and mid-sized farms and ranches.

A new provision should be added to ensure that awards are made on the basis of sustainability criteria, as outlined above. The program should encourage agricultural producers to implement production techniques that preserve the integrity soil, water, air, and wildlife habitats. This provision should also require a showing of significant net environmental benefit and provide a preference for the development of locally-owned energy projects to guarantee that communities receive real economic benefits and that projects will be suitable for local circumstances.

Another new provision should authorize grants for feasibility studies. Existing language authorizing direct loans for smaller scale projects should be emphasized. Finally, program evaluation and reporting requirements should be added.

Part III: Marketing and Rural Development

American agriculture is experiencing a transformation. A resurgence in consumer demand for healthy and sustainably-produced food, increasing interest in local and regional markets, structural changes in the agriculture sector, and rapid advances in information and farming technology—all of these factors are coalescing to form a unique set of opportunities and challenges for farmers and rural communities. The current farm bill contains some nascent programs to help farmers and rural communities tap these emerging alternative markets and new business trends, but relative to demand and opportunity, these efforts need to be greatly expanded.

At the same time, rural communities are looking to leverage their local resources into the entrepreneurship and small business success necessary to ensure lasting economic vitality. Revitalization of family farming and ranching should be pursued as part of a larger strategy to revitalize agricultural communities in an equitable manner that provides meaningful employment and gives people a lasting stake in their communities. Farm bill funding should help support the establishment of owner-operated farms and rural businesses. Priority should be placed on proposals that enhance self-employment opportunities for low and moderate income people and communities and that achieve environmental benefits.

A. Entrepreneurial and Value-Added Agriculture

The rapidly changing market landscape of agriculture and the food system presents American farmers and ranchers with many opportunities and challenges. Powerful new trends in consumer demand, information and farm technologies, population changes and development pressures, and innovative new business models across the supply chain have all contributed to the creation of new markets for agricultural products.

Entrepreneurial agriculture has great potential to improve farm income, but farmers will need the tools and skills that allow them to tap into the emerging and future trends in markets in an environment of increased competition and, potentially, decreasing traditional farm income support programs. Federal policies and programs have slowly begun to respond to these new market and value-adding opportunities, but there remains a significant lag and mismatch between current federal policy priorities and actual market trends.

Significant federal resources should be redirected to serve the marketing and business development needs of producers tapping into these new markets. Value-added agriculture needs increased support and attention. Regional food-related processing and distribution channels need to be renewed. New national value chains to support family farms producing in concert with the environment and social welfare need nurturing. Now more than ever, we need a new generation of cost-effective programs that support innovation and market development for the agricultural and rural business sectors.

1. Value-Added Producer Grants Program

ISSUE

Created by the Agricultural Risk Protection Act of 2000 and expanded as part of the 2002 Farm Bill, the Value-Added Producer Grants (VAPG) program is a competitive grants program administered by USDA's Rural Business-Cooperative Service. The program makes grants to producers and producer-controlled entities to develop value-added businesses and thereby enhance farm income, farm and rural self-employment opportunities, community economic development, consumer food choices, and natural resource protection.

The VAPG program helps create market-based solutions to farm income problems. Mid-sized family farms and the farming communities they help support have been facing tough economic times for consecutive decades. Remaining on the land increasingly requires the ability to add value to basic agricultural products through branding, processing, product differentiation, labeling and certification, and skillful marketing. The VAPG program provides assistance to independent producers to pursue market opportunities that will add value to their agricultural operations and raise their incomes. The grants may be used for a number of different activities, ranging from writing business plans to establishing a working capital fund.

Value-added products include those converted from raw products through processing to increase market value through higher prices, expanded markets, or both. Value-added products also include those whose incremental value result from inherent product attributes such as geographical location, environmental stewardship, food quality or safety, or functionality, including efforts to communicate these attributes to consumers through certification, verification, and labeling programs.

The program was authorized in the 2002 Farm Bill to receive mandatory funding at $40 million annually through 2007, though annual appropriations bills in 2004-2006 have unfortunately reduced program investments by $70 million. Since first being implemented in 2001, the VAPG has been able to fund less than 30 percent of eligible applications. In spite of the demand for the program, Congress has reduced program funding for three straight years by inserting limitations via the appropriations process.

PROPOSAL

The 2007 Farm Bill should reauthorize the VAPG program and provide it with $50 million annually in mandatory farm bill funding. In order to ensure social, economic and environmental benefits to rural communities, the program's objectives should be strengthened. The program should:

- Actively support a broad diversity of projects that help increase the agricultural producer's share of the food and agricultural system profit and help create self-employment opportunities in farming and ranching and local communities.

- Prioritize projects that strengthen the profitability and viability of small- and medium-sized farms and ranches and/or increase farming opportunities for beginning farmers and ranchers -- perhaps through a scoring system that provides substantial additional points for proposals advancing this objective.

- Support projects that contribute to conserving and enhancing the quality of land, water and other natural resources and the rural environment.

- Support certification and labeling projects that foster independent family farms, environmental protection, good land care and humane animal treatment, place-based marketing, and improved health and nutrition.

- Include a new sub-granting category for food value chain projects (see subsection 2 below).

Some states have competed far more successfully for VAPG grants than others. The farm bill should include a provision for special outreach and attention to states that have little or low participation in the program to date. In addition, for all states, a small portion of total VAPG funding should be set-aside for grants to non-profit and educational organizations to provide technical assistance for grant proposals, with significant consideration to areas where project proposals are less successful or numerous.

The VAPG program's application process should be refined and made more accessible and user-friendly. While this can mostly be achieved through administrative implementation changes, Congress should authorize a separate, less complex application procedure for smaller grants, and require the publication by USDA of an eligibility assessment tool handbook to be made available to potential applicants.

2. VAPG Value Chain Grants

ISSUE

As farmers develop new value-adding food and agricultural enterprises, a number of supply chain issues come to the fore, including processing, distribution, and marketing challenges. These are particularly pressing issues for the disappearing middle of the US agricultural and food system. Over the past several decades the American farm and food system has become increasingly dualistic. One end of the spectrum is inhabited mainly by small farms that have developed direct marketing relationships with local food customers. The other end of the spectrum has witnessed the emergence of large farms contractually linked to consolidated food and fiber agribusinesses that mass market undifferentiated agricultural commodities around the globe.

Farms and ranches in the "middle" are often not in a position to do much direct marketing, and are increasingly unable to compete successfully in the high volume, low margin commodity markets. As these farms and ranches in the middle decline, so too do the public benefits that they provide in terms of rural economic activity, land and water stewardship, and community social capital. Moreover, as farms in the middle are squeezed out, the local and regional food processors, distributors and retailers that had catered to them are also being lost.

Simultaneously, other dynamics are emerging in the agri-food system that provide significant opportunities to redirect and revitalize the agriculture-of-the-middle. The most important of these dynamics is the sizeable and growing demand for highly differentiated, value-added food products. Prompted by customer demands, restaurants, health care institutions, schools, corporate cafeterias, other food service enterprises, and a growing number of supermarkets increasingly are demanding foods that: 1) have superior taste, health and nutritional qualities; 2) are associated with unique food stories that identify where the food comes from and how it is produced (i.e. identity preserved, local/regionally grown, family farmed, environmentally sensitive); and 3) come to them through supply chains built on business relationships they can trust and support.

Direct marketing farms often lack the capacity to supply the significant volumes of differentiated, high-quality food products that growing numbers of consumers are demanding, and farms and ranches oriented toward global commodity markets are not designed to provide such food differentiation. Farmers and ranchers of the middle are uniquely positioned to meet the growing demand for value-added food products. These farmers/ranchers have both the flexibility and the capacity to participate with other, similarly positioned supply chain firms to respond to the rapidly expanding markets.

For the time being, both the markets and the midsize producers who have the potential to supply these markets are in place. But for these producers to successfully participate, many will need assistance in rethinking and retooling their production, marketing, and business strategies. Particularly important will be developing new business models and practices that will enable farmers, ranchers, and other community food entrepreneurs to respond effectively to the new markets *and* to garner a more equitable share of the food dollars moving through the supply chains. What is needed are business models similar to the fair trade models that are proving increasingly successful in the international trade of such food products as coffee, bananas, and cocoa.

Domestic fair trade business models are increasingly being called "value chains." Mid-tier food value chains are strategic alliances between midsize independent (often cooperative) food production, processing, and distribution/retail enterprises that seek to create and retain more value on the producer end of the supply chain. Farmers and ranchers are treated as strategic partners in these new business arrangements rather than as interchangeable (and expendable) input suppliers. Strategic partners incur both rights and responsibilities related to supply chain performance and commitments are made to the welfare of all strategic partners in a value chain, including fair profit margins and fair wages.

PROPOSAL

One of the most significant things the federal government can do to help family farms prosper is to provide seed money for the establishment of mid-tier food value chains that aim to help mid-sized farms thrive through the marketing of differentiated products and that adhere to sound social and environmental principles and equitable business practices. It takes considerable upfront investment of time, feasibility studies, market development, outreach and coordination to develop value chains consisting of midsize, independent farming and business enterprises that produce, process, distribute and market significant volumes of differentiated and value-added food products at regional scales. The availability of funding to help offset some of these costs of organizing value chains could take the value-added producer grant program a whole extra step forward toward lasting, market-driven results.

As a new part of the Value-Added Producers Grants program, the 2007 Farm Bill should authorize a new component of the VAPG program to support competitive grants for value chain development. Approximately $10 million a year out of the $50 million a year we recommend for the VAPG overall should be set-aside for this purpose. Grants should be awarded to projects that:

- are specifically targeted to mid-sized farms and ranches;
- have substantial farmer and rancher participation;
- facilitate partnerships that involve businesses, coops, non-profits, agencies, and educational institutions; and
- articulate clear and transparent social, environmental, fair labor and fair trade standards.

The overriding goal of the value chain grants, like the underlying VAPG program, should be to improve farmer profitability while benefiting the local rural economy, improving the environment, and meeting consumer demand.

B. Organic Agriculture

Well-documented statistics placing the growth of the organic food market at approximately twenty percent annually for the past fifteen years clearly indicate that consumer demand for organically produced fruits and vegetables, milk products, meats, and myriad value-added products is becoming a permanent force in our domestic agriculture market. In addition to the obvious resource conservation benefits of organic production methods, the premium paid for organically produced food offers extremely promising economic opportunities for small to mid-sized farmers and ranchers.

In spite of the significant economic incentives for farmers and ranchers to adopt organic practices, we are currently experiencing an increasing domestic shortfall of organically produced food. As sales of organic food products continue to grow by nearly $2 billion each year, US companies are increasingly being forced to rely on foreign imports in their effort to meet consumer demand. Clearly, this is an unacceptable situation. Considering the enormous potential organic practices have to increase farm revenue in our rural communities, and provide nutritious, locally-produced food to our citizens, federal policies aimed at assisting farmers' and ranchers' transition to organic production must be a priority in the next farm bill.

1. National Organic Certification Cost Share Program

ISSUE

The National Organic Certification Cost Share Program was authorized and funded by the 2002 Farm Bill. The program provides modest assistance to help cover the cost of organic certification, costs that have risen considerably with the advent of USDA's National Organic Program (NOP). In addition to the National Organic Certification Cost Share program, organic certification cost-share is also available in 15 states (the northeast states plus WY, UT, and NV) with funding provided by a special provision of the Agricultural Management Assistance (AMA) Program authorized by the Agricultural Risk Protection Act of 2000 and continued under the 2002 Farm Bill.

Under the combined funding streams, USDA provides certification cost share assistance to producers or handlers of organic agricultural products in all States who obtain certification under the NOP. The program is administered through the state departments of agriculture. Each state organic program is allocated a specific amount of dollars based on the number of certified organic producers in their state. Payments are set at 75 percent of the costs incurred by a producer or handler in obtaining certification, up to a maximum of $500 per year.

The AMA program for the 15 states is currently funded at $1 million per year. The National Organic Certification Cost Share Program covers farmers and handlers in the other 35 states (plus handlers in the 15 AMA states) and was provided

$5 million for the life of the farm bill, a sum that was completely utilized by 2006, a year and a half short of the conclusion of the farm bill cycle. Both funding streams are mandatory funding, not authorizations for appropriations.

PROPOSAL

The 2007 Farm Bill should reauthorize the National Organic Certification Cost-Share Program and make it a nationwide program, eliminating the need for using Agricultural Management Assistance program dollars for certification cost share. The combined program should be funded at a level large enough to fully service the growing organic sector, an amount currently estimated to be in the neighborhood of $5 million or more a year. Congress should continue the policy of capping the assistance at 75 percent of the cost of annual certification, but update the maximum amount per farm (consistent with increased average farmer certification costs caused by increased fees charged by USDA to certifying organizations) to not exceed $750 per farm per year.

2. National Organic Transition Support

ISSUE

In spite of the spectacular expansion of the organic food market, US organic production is lagging far behind demand, and reliance on foreign organic imports is increasing. The reasons for this shortfall are myriad, but the obstacles encountered by producers before and during transition to organic are generally recognized as the most significant barriers to successful participation in this market.

The costs of effecting organic conversion can be the single greatest challenge facing producers. The individual investments in materials, labor, equipment, knowledge, and management required during the three-year transition period vary widely, but the cumulative costs are very significant. While there is an expectation that these costs will be recouped after certification, producers must internalize these expenses until organic certification is achieved and products are successfully marketed. However, following the initial investment period, even conservative estimates confirm the significant economic benefits to be realized from transition to organic production, and the potential for organic production to mitigate the environmental degradation caused by conventional farming methods is well documented. Given the remarkable potential that organic transition has to increase small and medium-farm income, while simultaneously ensuring natural resource conservation, policies that promote and support successful farmer transition to organic production should be a priority in the next farm bill.

There is currently a growing ad hoc mixture of public and private efforts at work to encourage the recruitment and training of organic farmers, and ease the burdens of transition to organic production. States engaging in these cooperative efforts include Montana, Massachusetts, Minnesota, Iowa, Nebraska, Missouri, Maryland, and New Mexico. In some instances these programs provide purely technical assistance, while others combine financial support or incentives with practical training.

Institutional efforts are being led primarily by University Extension programs funded with short-term competitive grants. Some states are utilizing Environmental Quality Incentives Program, Conservation Security Program, or Agricultural Management Assistance funds to support organic conversion. These ad hoc efforts are a strong indication of the growing need for organic transition support.

PROPOSAL

To assist farmers and ranchers seeking to develop more sustainable systems and sell into higher profit markets, Congress should create an Organic Transition Support Program. The program should provide both technical and financial assistance for the adoption of organic farming-based conservation systems. This organic transition support program should be administered through the Natural Resources Conservation Service (NRCS), in cooperation with the Research, Education and Economics agencies. NRCS should adopt conservation practice standards for developing, maintaining and enhancing organic farming systems. The total program should receive $50 million a year.

Transition support program funding should be available to farmers converting to certified organic production, those adding additional land or livestock that will be organic-certified, and those adding conservation enhancements on existing certified organic production. Financial assistance payments per farm should be capped at $10,000 per year and contracts should not exceed five years.

Due to the knowledge-intensive character of organic farming, a very substantial portion of total funding should be dedicated to technical and educational assistance and training. Availability of information and mentoring by other farmers are the most significant factors for successful expansion of organic production capacity. Funds for transitional technical assistance and education should support programs that combine professional/academic resources with mentoring or consultation by existing organic producers. The forms and delivery mechanisms would vary depending on the geographic location and type of agriculture. Extension, NRCS, non-governmental organizations, farmer networks, and technical service providers should all be involved.

C. New Local and Regional Markets

Today's global food network is comprised of a shrinking number of farmers operating on increasingly large farms to produce food for shipment to distant communities across hundreds, often thousands, of miles. The distance food travels from where it is produced to where it is purchased and consumed, often referred to as "food miles," continues to rise with our growing reliance on centralized production and agricultural imports. As a result, the relationship between people and their food has become distant, farmers are seeing less and less of the food dollar, and local economies are being undermined as their agricultural base continues to disappear. On a larger scale, the increase in the "food miles" traveled by agricultural products is a substantial contributor to our nation's collective energy bill.

These economic, environmental, and social problems all stem in part from the shortcomings of a food system that often overlooks the potential for sustainable growth offered by local and regional markets. Growing regional agricultural economies result in the recirculation of profits in the local community, thereby supporting other locally-owned businesses. Other benefits include reductions in the use of energy for transportation, the availability of fresher produce for consumption, conservation of agro-biodiversity, farmland preservation, and community development through expanded local social and business networks.

A renewed focus on reinvigorating regional agricultural economies and local food systems should be included as a key element in the policy agenda for the new Farm Bill. Policies and initiatives that emphasize the purchase of locally-produced agricultural goods, farmer direct marketing, and institutional buying of local products should play an important role in this effort. In conjunction with these market-based programs, policies alleviating domestic food insecurity and increasing public awareness about the health benefits of the consumption of fresh local foods will aid in the development of viable local and regional food systems.

1. Farmers Market Promotion Program

ISSUE

The USDA currently estimates annual consumer spending at farmers markets and other direct marketing venues at $1 billion. This statistic reflects increasing consumer desire to support local farmers and ranchers, growing public concern about how food is grown and raised, and the rapidly expanding popularity of markets that bring together farmers and residents of both rural and urban communities. The Farmer's Market Promotion Program (FMPP) was created in the 2002 Farm Bill precisely to assist farmers and communities seeking to meet this increased farmer and consumer demand for expanded direct marketing venues and options.

The FMPP seeks to increase farmer-to-consumer direct marketing by developing, improving, and expanding domestic farmers' markets, roadside stands, community supported agriculture programs, and other direct producer-to-consumer market opportunities. Entities eligible for competitive grants under the program include: agricultural cooperatives; local governments; nonprofit corporations; public benefit corporations; economics development corporations; regional farmers market authorities; and other entities designated by the USDA. The maximum grant amount available to applicants is $75,000, and recipients are prohibited from using assistance received under the program for the purchase, construction, or rehabilitation of a building or structure.

Funding for the program is discretionary, meaning Congress is not required to authorize funding for the program each year, and the funding level can change annually. For the first time since the creation of FMPP in the 2002 Farm Bill, Congress appropriated $1 million to fund the program in Fiscal Year 2006. USDA's Agricultural Marketing Service (AMS), which administers the program, received 367 applications requesting more than $19 million dollars for grants under the program this past year, indicating a very high demand for the program. USDA recently awarded 20 grants in 17 states from the first year's allocation of funding.

PROPOSAL

Prior to Fiscal Year 2006, AMS resources for direct marketing enterprises were primarily technical assistance, with no financial assistance available to expand direct farmer-to-consumer marketing opportunities. It is our strong belief that federal assistance to grow and promote direct marketing initiatives is a critical addition to the USDA's portfolio of programs serving small and mid-sized farms and ranches, rural communities, and consumers. We therefore strongly recommend that the FMPP be allocated $20 million in annual mandatory funding in the 2007 Farm Bill. Congress should also direct USDA to select projects that foster the full range of direct marketing opportunities.

2. Other Direct Marketing and Institutional Marketing Programs

ISSUE

In conjunction with federal policies that promote sustainable farming, rural economic development, and environmental stewardship, programs and regulations that serve the public health and nutritional needs of our country's diverse population must play a crucial role in the 2007 Farm Bill negotiations. Increased federal support is a must for nutrition programs that end hunger, promote the production of healthy foods, and guarantee even the most vulnerable members of our society access to safe and nutritional food. Important community-based healthy food and nutrition programs and initiatives that should be improved and expanded in the 2007 Farm Bill include:

- The **Farmers Market Nutrition Program** (FMNP): Part of the Women, Infants, and Children program (WIC), FMNP was established by Congress in 1992 to increase WIC participant's access to fresh, unprocessed, locally grown produce, and provide education about the nutritional value and preparation of fresh vegetables. The FMNP currently receives about $20 million a year in discretionary funding through the annual congressional appropriations process.

- The **Senior Farmers Market Nutrition Program** (SFMNP): The SFMNP awards grants to states for the provision of coupons to eligible seniors for the purchase of fresh, unprocessed foods at farmers markets, roadside stands, and community supported agriculture projects. The Seniors Program currently receives $15 million a year in mandatory farm bill funding.

- **Farm to Cafeteria Projects** (F2C): The Farm to Cafeteria program supports community-based projects enabling schools and colleges to purchase food directly from local and regional farmers and to equip their facilities to handle local foods, ensuring nutritious food choices for students and support of local agriculture. The Farm to Cafeteria program was authorized in 2004 Child Nutrition and WIC Reauthorization Act but has yet to receive any funding.

- **Community Food Projects Competitive Grant Program** (CFPCGP): Originally created in the 1996 Farm Bill, and reauthorized in the 2002 Farm Bill, this program awards grants of $100,000 to $500,000 to nonprofit private organizations for multipurpose community food projects that increase the self-reliance of communities in meeting their food needs, improve access of low-income individuals to healthy local food, and create innovative marketing activities that benefit both local farmers and consumers. The Community Food grants program currently receives $5 million a year in mandatory farm bill funding.

PROPOSAL

Reducing domestic food insecurity, supporting local and regional food systems, and promoting the production and availability of healthy foods that enhance the wellbeing of all citizens are priorities that should be pursued in the 2007 Farm Bill. Consistent with these core tenets, SAC strongly recommends that the mandatory farm bill allocations for the Seniors Farmers Market Nutrition Program and Community Food Projects Competitive Grant Program be increased significantly. The Farm to Cafeteria Program should also receive start-up funding through the farm bill. We also urge the adoption of policies that reform procurement rules and systems to assist schools in nutritious and locally produced food purchases.

3. Improved Safety Standards and Interstate Shipment of State Inspected Meat

ISSUE

There is an urgent need to reduce regulatory barriers impeding the development of local and regional markets for meat and other products. A recent survey conducted by the Wisconsin Association of Meat Processors indicated that 95 percent of their members believe a rescission of the interstate ban would promote their sales, and 66 percent of these respondents think their sales would be increased by 5 percent or more. Nearly 80 percent of these business owners also reported that an increase in sales would lead to additional hiring and increased payroll hours. However, current federal law prohibits the out-of-state sale of cattle, sheep, swine, and poultry products inspected by a state inspection agency. As a result, small producers and meat processors cannot use venues like the internet or mail order catalogs to make interstate sales, and are being placed at an increasing disadvantage as they remain unable to capture profits from expanding direct and niche marketing opportunities.

The statutory authority for both state and federal meat inspection programs is provided by the 1967 Federal Meat Inspection Act (FMIA) and the 1968 Poultry Products Inspection Act (PPIA). These acts mandate that meat and poultry inspection programs be run cooperatively by the federal government and the states, establish the "at least equal to" standard for state-inspected plants, and provide 50 percent of funding for state programs through cooperative agreements with USDA's Food Safety and Inspection Service (FSIS). The 1967 and 1968 Acts also require USDA to determine a national inspection standard, and assume direct responsibility if states fail to implement adequate inspection programs.

In addition to these statutes, the Hazard Analysis and Critical Control Point (HACCP) program was implemented in 2002 to reduce the microbial contamination of meat products during processing. This legislation complements, but does not replace, the traditional inspection system. However, the pathogen performance standards established by HACCP for *E.coli* and *Salmonella* were successfully challenged by the meat industry in the lawsuit commonly known as *Supreme Beef*. A federal district court ruled in favor of the industry, finding that salmonella levels could not be used to withdraw federal inspectors from a processing plant, effectively shutting down its operations. After an appellate decision confirming the district court, major consumer groups have been pressing for amendments to the inspection standards that incorporate enforceable testing standards for microbial contamination.

The 2002 Farm Bill contains a provision requiring the FSIS to conduct a study of state inspection programs, and collect information concerning the effects that lifting the interstate shipment ban would have on small processors and producers. In 2003, FSIS devised a new comprehensive review system for state meat and poultry inspection programs, and shortly thereafter began an evaluation of the 28 existing state meat inspection programs under this new directive.

At present, this evaluation remains incomplete, but a recent USDA Office of the Inspector General (OIG) audit identified several shortcomings in the revised FSIS State Meat and Poultry and Inspection Program. In addition to citing the agency's slow progress in completing state program assessments, the OIG highlighted several problem areas in FSIS evaluation procedures. These included unclear guidelines concerning the final approval of a state's inspection program, inadequate procedures for the evaluation of state staffing levels and laboratory quality assurance, and poor oversight of state fiscal accountability. The OIG audit also identified several states with meat inspection programs that did not appear to meet basic consumer safety standards.

PROPOSAL

The 2007 Farm Bill should include a comprehensive set of safety and inspection guidelines that combine current federal and local meat inspection regulatory frameworks into a single set of strong national product safety and accountability standards. These guidelines should include specific testing criteria for microbial contamination and effective enforcement measures for failure to meet these requirements. In addition, the FSIS should be required to complete an annual review process to ensure these standards are being met in every inspection facility. Pending the successful adoption and implementation of these standards, a provision eliminating the federal prohibition on interstate sales of meat and poultry products from state-inspected plants should be implemented.

D. Rural Business and Community Development

Spurring innovation and job creation in rural communities is the key to ensuring the long-term future of rural America. Over half of all new jobs created in the most rural regions of the nation come from small, non-farm business ventures. There is a developing broad agreement among researchers, policy advocates, and grassroots workers that the traditional economic development models of industrial and business recruitment simply do not meet the needs of rural communities.

Entrepreneurship has been lifted up as an economic development model that will better serve rural people and rural places. For example, the Federal Reserve Bank of Kansas City states that, "Rural policymakers, who once followed traditional strategies of recruiting manufacturers that export low-value products, have realized that entrepreneurs can generate new economic value for their communities. Entrepreneurs add jobs, raise incomes, create wealth, improve the quality of life of citizens and help rural communities operate in the global economy."[9]

Federal rural policy should begin to recognize the importance of entrepreneurship as a rural development strategy and provide the resources necessary for rural people and rural communities to leverage the spirit, creativity, and opportunities entrepreneurship creates.

Asset- and wealth-building strategies are equally important. Greater income alone cannot lead to economic well-being for individuals and families; asset- and wealth-building through home ownership, business ownership or enhanced education lead to important long-term psychological and social effects that cannot be achieved by simply increasing income. While income is an important factor, income can be achieved nearly anywhere in varying degrees. Assets like businesses and houses bond residents to a place and help to build sustainable communities. A commitment to rural asset- and wealth-building strategies can lead to stronger individuals, families, and communities.

The changing demographics of rural America are complex and subtle, but their effect on the economic productivity and social fabric of our rural communities is not. While rural counties found adjacent to population centers are experiencing increased population through migration, many other rural areas of the country are continuing to feel the pain of population loss. Census figures from 2004 indicate that 77 percent of farming counties and 62 percent of rural mining counties lost population between 2000 and 2004. This population loss is directly linked to the high rates of poverty found in these areas, and the disparity between rural communities and their urban counterparts becomes undeniable when economic indicators like job growth and income are considered.

Rural child poverty rates, which provide important

[9] Federal Reserve Bank of Kansas City, Center for the Study of Rural America. 2002. "Are High-Growth Entrepreneurs Building the Rural Economy." The Main Street Economist, August 2002.

signals about children's quality of life and the overall health of the communities in which they live, have experienced an alarming upward trend in most of rural America. According to the Census Bureau's recently published 2005 American Community Survey, forty-one of the fifty states experienced an increase in rural child poverty between 2000 and 2005, with 5 states reported to have rural child poverty rates exceeding 30 percent. Nationally, the average rate of child poverty in rural America is 22.5 percent, while the average in urban areas is 18.5 percent. These statistics indicate that federal policies are currently failing to meet the needs of poor children in all areas of the country, but it is clear that our rural communities continue to experience the highest rates of poverty, and this trend is gaining momentum.

To repopulate rural areas, attack the root causes of rural poverty, and address the continuing and growing economic disparity between rural and urban areas of the nation, the Rural Development Title of the 2007 Farm Bill should focus on entrepreneurial development and asset- and wealth-building for rural people and communities.

1. Rural Entrepreneurs and Micro-Enterprise Program

ISSUE

Most new jobs in very rural areas come from non-farm proprietorships -- people creating their own job by starting a small business. Small-scale entrepreneurship is the one development strategy that consistently works for most rural communities.

It can also bring back the young. Surveys of high school students in Nebraska, for example, find that up to 80 percent would like to own their own farm or business. That has the potential to draw them back to rural America. Low wage jobs will not.

Currently, most financial support for rural entrepreneurs comes from the Small Business Administration (SBA), with some smaller funding from USDA programs such as the Rural Business Enterprise Grant program, Rural Cooperative Development Grant program, and others. However, SBA funds are fully subscribed, with Nebraska currently the only state where services to rural entrepreneurs are available statewide.

A Rural Entrepreneurs and Micro-Enterprise Program was included in the Senate version of the 2002 Farm Bill and provided with mandatory annual farm bill funding. This initiative is designed to assist low to moderate income entrepreneurs with training, technical assistance, and micro-credit (business loan or guarantee of not more than $35,000) in the establishment of small businesses in rural areas. Unfortunately, the program was deleted from the final farm bill during the conference committee deliberations between the House and the Senate.

PROPOSAL

The 2007 Farm Bill should create a Rural Entrepreneurs and Micro-Enterprise Program that would allow rural entrepreneurs to acquire the skills, obtain the capital, and build the networks necessary to establish new small businesses in rural areas. This program should also provide continuing technical assistance as the individuals begin operating the small business. A micro-enterprise would be defined as a business that employs five or fewer individuals, requires $35,000 or less in start-up capital, and does not have access to the commercial banking sector. Farm and food-related businesses would be eligible, but the program would target the full range of rural micro-businesses.

Grants would be provided to qualified organizations for training, operating support and capacity building services to assist them in developing training and services for rural Micro-Enterprise programs, or to assist them in developing the best practices in delivering training, technical assistance and micro-credit to rural entrepreneurs. In addition, grants could be used by qualified organizations to provide credit to qualifying rural entrepreneurs.

Under the initiative, micro-enterprise is defined as a sole proprietorship, LLC, joint enterprise, cooperative, or corporation that has 5 or fewer employees and is unable to obtain sufficient credit or banking services from traditional lenders. Only organizations with a demonstrated track record of delivering services to rural entrepreneurs will qualify as grantees, and at least 50 percent of the clients they serve must be identified as low income. Finally, grants would be available for developing marketing networks and other initiatives to enable rural micro-entrepreneurs to secure markets beyond their local community. The 2007 Farm Bill should include $50 million a year in mandatory funding for this program.

2. Community Entrepreneurial Development Program

ISSUE

In general, rural communities have not been well-served by traditional economic development strategies. These strategies have lead to rural depopulation, the exporting of local wealth, and a growing economic disparity between rural and urban areas. Most importantly, these strategies have lead to a mentality of dependence on state and federal government programs to provide for the future of rural people and rural places.

There is, however, a developing alternative that encourages communities to take immediate action in four strategic areas:

- *Mobilizing local leaders* -- For rural communities to compete in the 21st century, they must tap into everyone's potential knowledge, talent, and aspirations. Rural communities must recruit and nurture leadership among all segments of the population – including women, minorities, and young people. The entire community must be brought into decision-making roles, with continuing leadership training programs that allow today's leadership to reflect the challenges of a constantly changing global environment.

- *Capturing local wealth* -- Rural residents do not always recognize the existence of local wealth because it is often held through land ownership. Because of the aging farm population, much of that wealth is also in danger of permanently leaving the community in the next few decades. The Nebraska Community Foundation, for example, has estimated that $94 billion worth of wealth is at stake in rural Nebraska in the next 20-30 years. The power and the will to use these assets will no longer be tied to the community unless active strategies are implemented now. Active community foundations and other vehicles of local philanthropy will allow rural communities to capitalize their hopes, dreams, and needs while employing their own assets.

- *Energizing entrepreneurship* -- Too many rural communities continue to invest resources in economic development for job creation and business development that exports, rather than builds, local wealth. A more sustainable strategy for many rural communities is to create new wealth and jobs by developing local entrepreneurs and broader product lines and larger markets, to develop planned business succession, and to use local assets to support entrepreneurial development.

- *Attracting young people* -- The lack of opportunity and encouragement to "come back" drives many young people away from their rural hometowns. However, rural communities can set realistic goals for youth attraction, which in combination with the other strategies, can stabilize population and enhance the local economy. Targeting youth and young families, creating career opportunities through business transfer strategies and entrepreneurship, and nurturing a sense of ownership and active civic and economic involvement can lead to a community that is more attractive to young people and young families.

PROPOSAL

The 2007 Farm Bill should create a $75 million a year Community Entrepreneurial Development Program based on four pillars of rural economic and community development: entrepreneurship, capital, youth and leadership. This program would offer grants to collaborating communities to establish regional initiatives for entrepreneurial development, including small business education and technical assistance, leadership development, youth attraction and retention, community-based philanthropy and intergenerational business transfer planning.

A grant process shall be established to provide grants on a competitive basis to two or more rural municipalities or counties that are collaborating on a project to advance the purposes of this program, with priority given to projects that best alleviate chronic economic distress. Not more than $1 million of the funds granted may be provided to state rural development councils. At least one of the collaborating municipalities or counties must show economic distress through high unemployment, low per capita income, or historic population loss.

3. Individual Homestead Accounts

ISSUE

As a result of economic and demographic challenges facing many rural communities -- lackluster local economies characterized by low-wage employment without health and retirement benefits, high levels of poverty, and a general lack of economic opportunity resulting in spiral of depopulation -- many rural families have difficulty accumulating enough resources to invest in the future. The wealth held by rural families tends to be concentrated in illiquid assets such as personal residences, farms and ranches, or other forms of real estate. Rural households and residents are less likely to hold liquid assets and have higher rates of "asset poverty" (enough assets to support them for three months) than do urban households and residents.

Rural households and individuals also possess housing that is older and in poorer condition than urban and suburban housing. Rural households and individuals, on average, also have less education than their urban counterparts, thus limiting earning potential and economic opportunities. Taken together, rural families and individuals are generally less able to manage income disruptions (due to health issues or a loss of job) and are less able to invest in the future of their families and their communities. As a result, rural families are more susceptible to a continuing cycle of low-wage work and asset poverty.

Providing incentives for rural households and individuals to undertake asset- and wealth-building strategies will allow for activities that have both individual and community benefits. When individuals and families build an asset base that lifts dependence on low-wage work, communities become stronger and more viable as opportunities and ownership are expanded to a wider group of people. The issues of depopulation, poverty, and low-wage employment facing many rural communities are largely a function of a lack of opportunity. In order to create a future for these communities and their residents, a commitment must be made to enhancing opportunity through the building of assets and wealth.

The New Homestead Act of 2005 (S. 675) contains an Individual Development Account-like program for people in qualifying counties (those rural counties experiencing 20 percent or more out-migration in the past 20 years) entitled "Individual Homestead Accounts." Individual Homestead Accounts (IHAs), like Individual Development Accounts (IDAs), are savings accounts matched (generally with public funds) that allow tax-free withdrawals for certain purposes. IHA-allowable purposes are costs incurred in developing a small business, expenses related to obtaining higher education, first-time home purchases in qualifying counties, un-reimbursed medical expenses, and qualified retirement account rollovers. Any individual who is a bona fide resident of a qualifying county is allowed to create an IHA.

The IHA provision is generally identical to IDA programs that have been employed successfully in urban areas. Individual Homestead Accounts would allow individuals and families of distressed rural areas to begin building assets and would allow communities to institute strategies to address issues of depopulation and lack of economic opportunity.

Based on 2000 Census data, over 3.3 million households in qualifying counties would have household income that would qualify them for matching IHA funds. This represents about 16 percent of all non-metropolitan households in the United States, but about 81 percent of households in New Homestead Act counties.

Rural America is at a federal funding disadvantage. The Consolidated Funds Report for 2003 (the most recent data available) shows a $6.5 billion annual federal funding deficit to rural areas compared to urban areas, with a per capita deficit of over $100 for each rural person in the nation.[10] Even more lopsided is the rural disadvantage in community development funding. Each year since 1994, the federal government funded two to

[10] US Census Bureau. 2004. *2003 Consolidated Funds Report*. Washington, DC: US Census Bureau; at www.census.gov/govs/www/cffr03.html

five times as much per capita to urban community than to rural community development. The federal government provided only one-third as much for rural areas since 1994, an annual $16.5 billion funding disadvantage. Much of the rural funding disadvantage is in programs promoting and assisting asset- and wealth-building activities. Providing for Individual Homestead Accounts will relieve a measure of the rural funding disadvantage in asset- and wealth-building activities.

PROPOSAL

The 2007 Farm Bill should include the Individual Homestead Account provision of the New Homestead Act (Section 104 of S. 675, introduced in 2005). IHAs would be used for the specific purposes of developing a small business, expenses related to obtaining higher education, first-time home purchases in qualifying counties, un-reimbursed medical expenses, and qualified retirement account rollovers. Using a special savings account, the program would allow qualified participants to save for an approved asset purchase or investment, or build personal savings for use during times of unexpected illness or personal hardship. Participants would be permitted to make deposits and receive matching in their accounts for up to five years, and the ratio of personal and federal contribution to the account would be determined by income criteria. Any individual who is a bona fide resident of a qualifying, high out-migration county is allowed to create an IHA. The IHA program should be funded at $250 million annually.

4. Rural Cooperative Development Grants

ISSUE

Rural Cooperative Development Grants are awarded to establish and operate centers for cooperative development to improve economic conditions or rural areas. Authorized by the 1990 Farm Bill, the RCDG program currently receives approximately $6 million a year in annual appropriations. The coop centers are part of a network known as "Cooperation Works!" and have helped start over 100 cooperative rural businesses owned by nearly 30,000 members. The grants are awarded on a competitive basis through the Rural Business and Cooperative Service and are used as seed money for organizing coops, developing business plans, providing training on coop organization and management skills, and launching value-added businesses across rural America. Grants may be awarded for up to 75 percent of the total cost of a project, with the applicant contributing at least two percent of the cost from non-federal sources. Each year, RBCS must turn away more applications from coop centers than the number accepted due to inadequate funding.

PROPOSAL

The 2007 Farm Bill should add flexibility to the Rural Cooperative Development Grants program so that grants may be made on a multi-year basis. The ability to do some multi-year funding will help target funds to cooperative development ventures that require more organizing and training to secure a successful launch than can be afforded by a short one-year funding cycle.

5. Rural Entrepreneurship and Enterprise Facilitation Program

This program and policy option is addressed in the Research and Extension section at page 72 below.

Part IV: Research and Extension

The nation's investments in agricultural research profoundly affect the future of our food and farming system. Our vision of that future is a sustainable agriculture and food system that is profitable, environmentally sound, family farm-based, and socially just. Agriculture research should address economic and social needs of rural America by helping rural communities foster opportunities in farming and non-farm enterprises and services for both the youth of the communities and newcomers. Growth and change based on sustainable systems will bring positive change to rural communities, with the pace and nature of that growth and change compatible with protection of the environment and conservation of natural resources.

The Research Title of the 2007 Farm Bill provides the opportunity to shape the agriculture of the future by instilling principles of fairness and balance into the research agenda. It is also an opportunity to provide research resources to support and foster sustainable agriculture systems, including organic and other ecologically-based production systems, which supply food and other products that are steadily increasing their share of consumer markets. These systems can help restore balance to a US food system that is increasingly concentrated and focused on a narrowing base of crops and livestock breeds. In addition, sustainable production systems can restore greater diversity and quality to locally available foods. If the nation's research agenda for sustainable agricultural systems is not strengthened, our own farmers and ranchers will be unable to fully participate in emerging markets for food and other agricultural products.

In addition to new programs and initiatives, achieving a sustainable agriculture and food system will require the retention of and increased funding for existing programs such as the Sustainable Agriculture Research and Education (SARE) program and the National Sustainable Agriculture Information Service, also known as ATTRA or Appropriate Technology Transfer to Rural Areas.

The SARE Program, created by the 1985 and 1990 farm bills and administered by the Cooperative State Research, Education and Extension Service (CSREES), has been the flagship research program for sustainable agriculture at USDA. The program's strength is based on unique features of cost-effective and equitable regional administration combined with strong farmer participation, practical, outcome-oriented research results, and top-rated customer service and public outreach. SARE projects involve farmers and ranchers directly in research as the primary investigator in small producer grants or as cooperators in larger research and education grants. In addition, SARE's Professional Development Program grants provide information and training on sustainable systems to a wide array of USDA personnel, extension agents, and others who provide technical assistance to farmers and ranchers. In 1990, Congress determined that the SARE program should be funded at no less than $60 million a year, consistent with the recommendations of the National Academy of Sciences. Sadly, the annual appropriations for this award-winning program have yet to reach even a third of this level.

The National Sustainable Agriculture Information Service, also known as ATTRA, was also created by the 1985 Farm Bill and is managed by the National Center for Appropriate Technology (NCAT) and is funded under a grant from the USDA's Rural Business-Cooperative Service. ATTRA provides information and technical assistance to farmers, ranchers, extension agents, educators, and others involved in sustainable agriculture in the United States. ATTRA is also a valuable complement to the SARE program and other USDA research programs through its provision of readily accessible sustainable and organic farming information to farmers and ranchers across the nation. More recently, ATTRA has expanded resources for farm energy conservation and renewable energy production.

Both SARE and ATTRA should keep pace with the growing numbers of farmers and ranchers engaged in, or wanting to establish, sustainable agriculture systems providing food and other products for the growing consumer and energy markets linked to sustainable agricultural production practices. We do not address these two keystone programs in our recommendations below because no changes are needed in their farm bill authorizing language. Instead, they both urgently need a renewed commitment by USDA and congressional appropriators to bringing the annual funding for the programs in line with the farm bill authorization and with their value and uniqueness in the total research and extension portfolio.

Our priority recommendations for the next research title include a renewal and revamping of the Initiative for Future Agriculture and Food Systems, a new regional program for rural entrepreneurship and enterprise facilitation, a proposal to accelerate support for an organic farming research and extension agenda, and a re-invigoration of public plant and animal breeding funding. In addition, we recommend farm bill funding for the Outreach and Technical Assistance for Socially Disadvantaged Farmers and Ranchers program (sometimes referred to as the Section 2501 program) and the Beginning Farmer and Rancher Development Program described at page 9 above.

A. Farm, Food, and Rural Transitions Competitive Grants

ISSUE

The Agricultural Research, Extension and Education Reform Act of 1998 provided the USDA's Cooperative State Research Education and Extension Service (CSREES) with mandatory spending authority of $120 million a year for five years to establish an Initiative for Future Agriculture and Food Systems (IFAFS). IFAFS provided competitive grants to address numerous current and emerging farm and food issues, with a focus on family farm and ranch profitability, environmental performance of farming systems and natural resource management, and improvements in future food production systems including food safety, technology and human nutrition. Congress placed special emphasis on research to improve the viability and competitiveness of small- and medium-sized dairy, livestock, crop and other commodity operations. The 2002 Farm Bill increased IFAFS mandatory funding levels and added rural economic and community development to the list of IFAFS program emphases.

The IFAFS program provided very significant additional competitive grant research funds to what was already available through the National Research Initiative, Sustainable Agriculture Research and Education Program, and other competitive programs. IFAFS has emphasized outcome-based research to focus on approaches and solutions to real world problems affecting farmers and ranchers, rural communities, and public health and food choices. Priority for funding was for those proposals that were multi-state, multi-institutional, or multi-disciplinary, or that integrated agricultural research, extension, and/or education.

Despite widespread support for IFAFS and despite its excellent track record for supporting cutting-edge applied research, Congress in recent years has greatly reduced IFAFS funding. The $30-40 million a year left remaining in the program has been shifted into the National Research Initiative (NRI) competitive grants program as an appropriated subset of NRI funding targeted specifically for outcome-based research that relate directly to the IFAFS objectives.

For the past two years, the Administration has proposed increasing the percentage of the NRI set-aside for IFAFS, and congressional appropriators have begun to respond positively to this request. This is a promising sign. On the other hand, the budget reconciliation (deficit reduction) bill approved by the Agriculture Committees and signed into law in early 2006 stripped farm bill funding for IFAFS, putting increased funding for outcome-based competitive grants programs in considerable jeopardy. The next farm bill provides an opportunity to revisit this issue, restore funding, and further focus the program.

PROPOSAL

The 2007 Farm Bill should establish a Farm, Food, and Rural Transitions Competitive Grants program to provide new research, education and extension funding for integrated, inter-disciplinary, outcome-based research to:

- improve the competitiveness and viability of small and moderate-size family farms

- renew the health and vitality of rural communities
- enhance natural resource protection and ecological health, and
- create new farm and food system approaches to improved public health, food safety, and human nutrition.

The Transitions grants should replace the existing IFAFS authorization and funding authority, and should receive farm bill funding of no less than $60 million a year. This funding level would be considerably less than provided for IFAFS by the 2002 Farm Bill, but about 50 percent more than the actual funding levels of recent years after accounting for limitations placed on the program through the annual agricultural appropriations process.

Congress should designate the following as among the specific subprograms with the Transitions program:

- **Agriculture of the Middle --** Integrated research, education and extension to identify and disseminate information on specialized needs, opportunities, and barriers facing medium-sized family farms, including but not limited to efficient marketing networks, new food-supply chains, and transitioning to diversified, high value food production with environmental and social attributes valued by consumers.

- **New Farmers and Ranchers** -- Identifying and developing new research, education and extension models to expand farming and ranching opportunities for new and beginning farmers and ranchers, including socially disadvantaged farmers and ranchers, focusing on such topics as innovative farm tenure, transfer, and succession models and techniques, alternative production and marketing systems geared to small and medium-sized new and beginning producers, and specific risk reduction models for small and medium-sized new, beginning and socially disadvantaged farmers and ranchers.

- **Agricultural and Rural Entrepreneurship --** Research and education to improve the knowledge base for efforts to support local and regional food systems, value-adding enterprises, locally-owned renewable energy systems, and rural small business and community development (additional recommendations on entrepreneurship are provided below at page 72).

- **Public Plant and Animal Breeding and Genetic Conservation --** Research and extension on new varietal and breed development, including varieties and breeds suited to sustainable and organic systems and development of finished varieties and animal lines for niche markets, and projects to support the preservation and evaluation of germplasm collections to conserve and utilize genetic diversity (additional recommendations for public plant and animal breeding are provided below at page 76).

- **Ecosystem Services --** Research and field-tested tools and information on agriculture's role in providing ecological services and multifunctional market and non-market benefits, including development of management models and measurement and evaluation tools to help develop performance-based conservation programs and markets.

- **Conservation Effectiveness --** Integrated projects addressing critical issues related to improving the effectiveness of state and federal agricultural conservation programs and the conservation program technical infrastructure, including on-farm research, education, and extension projects using farms or ranches of farmers or ranchers that participate in agricultural conservation programs.

- **Climate Change Mitigation --** Research and education to investigate agricultural practices and systems that can mitigate climate change by reducing emissions or increasing carbon sequestration. Research areas should include strategies for reducing fossil fuel use, improving fertilizer management, transitioning to alternative livestock systems that do a better job of managing methane, and capturing more carbon in the soil as organic matter to improve soil health and reduce the severity of climate change.

- **Renewable Energy --** Research and education related to development of rigorous sustainability criteria for assessing agriculturally-based renewable energy production options and policies from an agro-ecosystem perspective, and development of production and marketing systems that meet the criteria. Research areas should include development of effective perennial polycultures, exploration of new resource-conserving feedstock crops, the ecological and economic dimensions of incorporating high yield oil seed crops into rotation with traditional crops, and manufacturing process efficiency improvements.

- **Rural Development Strategies --** Integrated projects addressing critical issues related to improving the effectiveness of state and federal rural and agricultural development programs, including projects directly involving rural organizations and rural entrepreneurs that participate in rural development programs.

- **Food System-Public Health Interactions --** Research, education and extension exploring the full range of critical issues related to the health impacts of food production and marketing systems and evolving opportunities to improve public health through food and agricultural systems change.

- **Local and Regional Food Systems --** Integrated projects to explore the opportunities for and barriers to a local and regional food system renaissance that increases farm income and viability, strengthens communities, improves health and food access, reduces energy consumption, and enhances the environment.

B. Rural Entrepreneurship and Enterprise Facilitation Program

ISSUE

Facilitating the growth and success of entrepreneurship in rural communities is an essential component of effective economic development initiatives at the local, state, and regional levels. The creation of sustainable small businesses in rural communities, including both agriculturally-based and other businesses, is the best alternative to fill a void left by the loss of manufacturing jobs and an historic reliance on economic activity based on natural resource extraction.

Grassroots groups, Economic Development Councils, Community Action Centers, regional Small Business Development Centers, colleges and universities, and several USDA programs currently provide leadership, technical assistance, and training to rural entrepreneurs. There is, however, a lack of comprehensive support or policy aimed at fostering rural entrepreneurship. Ensuring collaboration and cooperation among these individual local, state, and federal initiatives is essential to increasing the number of rural entrepreneurial start-ups while simultaneously reducing the failure rates of small businesses.

PROPOSAL

A new Rural Entrepreneurship and Enterprise Facilitation Program should be authorized in the 2007 Farm Bill, with at least $20 million in annual mandatory funding. The Program should be overseen by the USDA's Cooperative State Research, Education, and Extension Service, and jointly administered by and through the four existing Regional Rural Development Centers. Each region should have a Regional Administrative Council with representation from:

- federal and state agencies
- educational institutions
- non-profit organizations, and
- rural lenders and entrepreneurs.

The Rural Entrepreneurship and Enterprise Facilitation Program will provide much-needed resources and services to rural areas with the stated goal of creating jobs, spurring community innovation in all sectors of the rural economy, and increasing the start-up rate and reducing the failure rate of small businesses. The program will complement the individual-focused support provided by the Small Business Administration by creating partnerships with grassroots organizations, non-profits, educational institutions, and state and federal agencies engaged in educating and training potential entrepreneurs in rural communities. With a goal of creating entrepreneurial networks, providing technical training, and conducting very applied research, the proposed Program will also provide a complement to the Rural Mirco-Enterprise Program (see page 65 above), which seeks to target specific individuals who have already opened a small business, or are poised to do so.

The Rural Entrepreneurship and Enterprise Facilitation Program will establish a regional competitive grant process available to:

- local, regional, state and federal government agencies;
- educational institutions (including K-12 schools and community colleges)
- local and regional economic and community development organizations, and
- non-profit organizations.

Grants will be made for projects to foster rural entrepreneurship, including, but not limited to,:

- education and training
- technical assistance
- research
- enterprise facilitation, and
- partnership and network building.

Oversight of the Program would be conducted through the regional administrative councils, thus ensuring the engagement of the broad spectrum of groups and institutions contributing to rural entrepreneurial development.

Local support and organization of potential entrepreneurs will play a primary role in the program's efforts to increase the number of small businesses in rural communities across the nation. Education, training, and technical assistance will be a major focus in the program's efforts to increase entrepreneurial literacy, skills, and experience. Linking financial services providers with agencies and organizations that can provide practical advice and technical assistance to entrepreneurs seeking start-up loans or grants, or alternative sources of working capital, will help foster a strong national network aimed at facilitating small business development. Special attention will be paid to meeting the needs of minority groups including women, Native Americans, African Americans, Latinos, and new immigrant groups. Research documenting the effectiveness of local and regional programs in capacity building will improve these initiatives over time, and will assist in the creation and improvement of policies and regulations that support rural entrepreneurs.

C. Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers

ISSUE

The 1990 Farm Bill established the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Competitive Grants Program, also known as the "Section 2501" program after its bill section number. Under the program, administered through the Cooperative State Research, Education, and Extension Service (CSREES), USDA enters into agreements with 1890 Land Grant Institutions, American Indian Community Colleges, and Hispanic Serving Institutions, as well as community based organizations that work with minority farmers and are knowledgeable about their needs, to encourage and assist minority farmers to own and operate farms and to help them access and participate in USDA programs. The program supports a wide range of outreach and assistance activities in farm management, financial management, marketing, application and bidding procedures, and other areas.

Since its passage and initial implementation 15 years ago, the Section 2501 program has successfully brought much-needed technical information and training to minority and disadvantaged farmers and ranchers. The program has provided outreach to more than 100,000 rural constituents and has been an invaluable resource for the more than 400 counties where it has been implemented. In rural counties in which Section 2501 outreach has occurred, Agriculture Census statistics demonstrate the effectiveness of this program in decreasing the decline of socially disadvantaged farmers.

Despite this success, however, low annual appropriations for the program have limited the number of counties in which the program has been offered, and a significant number of farmers who would qualify for assistance have not received it. Although the program is authorized in the 2002 Farm Bill at $25 million a year, it has never been approved for more than $6 million in annual funding.

PROPOSAL

The 2007 Farm Bill should provide mandatory funding to bring the program to its authorized level of $25 million a year. In addition, the allocation to community-based programs should be increased.

D. Beginning Farmer and Rancher Research and Extension

This issue, including policy options related to funding for the Beginning Farmer and Rancher Development Program authorized by the 2002 Farm Bill and for enhanced new farmer and farm transition research funding, is covered above at pages 9 and 14.

E. Organic Agriculture Research and Extension

1. A Fair Share for Organic

ISSUE

Organic farming and ranching provide multiple benefits that contribute to all US strategic goals for agriculture including: a safe and secure food system; environmental protection; increased trade opportunities; improved human health and nutrition; and prosperous rural communities. Despite these benefits and the fast-growing organic market, federal agricultural research and extension dollars dedicated to organic food and farming are disproportionately low in relation to the size of the organic industry. Only since 1998 has organic research been funded at all, and this research currently receives far less than a proportionate share of federal agriculture research dollars. In FY 2004, USDA research and extension expenditures equaled $2.5 billion, but only about $10 million (0.4 percent) went to organic-specific research and extension. Increased focus on organic agriculture and food systems is needed throughout USDA's infrastructure for agricultural research, education and extension.

PROPOSAL

Organic research programs should receive a fair share of USDA resources, one reflecting the growth and opportunities of the organic sector, which currently represents three percent of total US retail food sales and continues to grow by nearly 20 percent a year. USDA should increase the specific attention given to organic farming and ranching systems across the full range of federal agricultural research and extension programs, as well as creating or expanding programs explicitly targeted to organic agriculture.

The Cooperative Extension System is generally failing to meet the needs of organic farmers and ranchers. To close this gap between needs and services, the Cooperative Extension System should be directed to provide increased attention and funding for training personnel and providing information and assistance to organic farmers and ranchers.

Specific programs relevant to organic farming could also better serve organic farmers. For instance, the 2007 Farm Bill should direct the regional Integrated Pest Management Centers to expand their organic portfolio, including the development of "Strategic Plans for Organic Best Management Practices." The National Agricultural Library's Alternative Farming Systems Information Center, SARE, and ATTRA could work together and make an additional useful contribution by providing publicly available online databases and toll-free information services for research and extension information specific to organic production and marketing.

2. Integrated Organic Program

ISSUE

The Integrated Organic Program (IOP) is a competitive grants program managed under the Cooperative State Research, Education and Extension Service (CSREES) Plant and Animals Systems division. The IOP is comprised of the farm bill's Organic Research and Extension Initiative, funded with mandatory farm bill dollars ($3 million annually under the terms of the 2002 Farm Bill), and the Organic Transitions Program, funded with discretionary dollars through the annual appropriations process (currently about $2 million a year). Because of the high level of interest in this program, only about 10 percent of qualified applicants have been able to receive funding. Demand for this program is expected to grow rapidly as the sector as a whole continues to expand.

PROPOSAL

The 2007 Farm Bill should increase funding for the Integrated Organic Program to at least $15 million per year in mandatory funds. The IOP should be overseen by a permanent, full time National Program Leader for Organic Agriculture. The program should be expanded beyond production research to include funding for marketing, policy, and economic research pertinent to the organic industry. The extension component of the IOP also should be refined and strengthened.

3. ARS National Program for Organic Agriculture

ISSUE

An initial sign of the growing level of commitment USDA's Agricultural Research System (ARS) has to organic agriculture was demonstrated by the first ARS "National Organic Agriculture Research Workshop" held in January 2005 in Austin, Texas. It is important that the momentum gained at that meeting be continued. A stronger fiscal commitment is essential to better serving the organic community. In 2004, ARS spent about $3.5 million on organic-specific projects, or about 0.35 percent of ARS annual expenditures. A "fair share" funding framework would require at least an 8-fold increase to approximately $30 million per year.

PROPOSAL

Organic research priorities developed at the first ever national organic agriculture workshop should be used as the basis for the development of a National Program for Organic Agriculture within the Agricultural Research Service. The program should be overseen by a new National Program Leader for Organic Agriculture. As with other National Programs at ARS, the National Program staff would develop national priorities with input from a diverse team of stakeholders. Funding for the organic program should start off at no less than $25 million. ARS should increase dissemination of organic research results through the National Agriculture Library's Alternative Farming Systems Information Center (AFSIC) and the ATTRA program.

4. Organic Production and Marketing Data Initiative

ISSUE

The 2002 Farm Bill included a provision for Organic Production and Marketing Data Initiative (Sec. 7404) directing USDA to ensure that segregated data on the production and marketing of organic agricultural products is included in the ongoing baseline of data collection regarding agricultural production and marketing. The initiative has been started and significant progress made, but the organic sector is still without comprehensive data on par with what is provided by USDA to the conventional farming sector.

PROPOSAL

The 2007 Farm Bill should reauthorize the Organic Production and Marketing Data Initiative and specifically require that:

- The Agricultural Marketing Service provide regular nationwide reporting of organic prices reflecting the geographic and market-chain diversity of organic sales.

- The Economic Research Service (ERS) continue and accelerate the job of collecting data on the organic sector, including farm financial indicators and market trends among handlers and processors of organic products.

- The National Agriculture Statistics Service (NASS) conduct specific surveys and provide data sets for the organic sector, with census (or census-type) data, including farm gate price reporting, acreage, yield, production, inventory, production practices, sales and expenses, marketing channels, and demographics.

F. Public Plant and Animal Breeding Research

ISSUE

The Sustainable Agriculture Coalition has joined with numerous other organizations and academics in raising concerns about the erosion of the infrastructure and funding for public plant and animal breeding in the US In December 2005, we issued a report entitled *Reinvigorating Public Plant & Animal Breeding for a Sustainable Future*, which is on the web at www.sustainableagriculturecoalition.org on the publications page.

This report emphasizes that long-term, sustainable US agriculture production must rely on diverse crop rotations, increased use of perennial species, and the integration of livestock in pasture-based systems. Sustainable and organic agricultural systems require plant varieties and animal breeds that do not depend on high levels of external inputs, and are selected to perform under a wide array of local climate conditions, forage availability, and pest regimes. A diversity of plant and animal genetic resources are also needed to address the growing challenges of global climate change, increasing pest and pathogen pressure, food security, safety and resiliency concerns, and shifting consumer preferences including a rapidly growing market for organically produced food.

These genetic resources are a public good that should be maintained both for our current needs and for future generations. In the past, these agricultural plant and animal genetic resources were maintained through a national agricultural research agenda that included publicly funded breeding programs and research on numerous species, breeds, and varieties. In addition, both the Land Grant University system and commercial markets provided a wide array of plants and animals to farmers and ranchers, many of whom undertook further breeding and selection to meet the local conditions of their farms and ranches. Policy and legal developments over the last few decades, however, have resulted both in an erosion of the public commitment to maintain our agricultural genetic resources and an increase in barriers to the ability of individual farmers and ranchers to contribute to plant and animal genetic diversity.

The nation's agriculture is at a critical juncture, with our capacity to conserve and further develop publicly available crop and livestock varieties and breeds seriously limited. The 2007 Farm Bill provides an excellent opportunity to reinvigorate and improve our public crop and livestock breeding programs, contributing to our long term food security, increased economic opportunities for farmers and ranchers, and improved food quality.

PROPOSAL

The 2007 Farm Bill should reauthorize the National Genetic Resource Program established in the 1990 Farm Bill and increase financial and personnel support for the collection, preservation and evaluation of germplasm collections and for increased public use of the rich sources of genetic diversity in the US germplasm collections. The Agricultural Research Service plant and animal national programs should be directed to accelerate long-term research on plant and animal breeding, including the development of finished varieties.

Classical plant and animal breeding should become a priority area within the proposed Farm, Food, and Rural Transitions Program (see page 70 above) or within the National Research Initiative (NRI). In either case, the aim should be to foster more diverse, energy efficient, and environmentally sustainable agricultural systems. The farm bill should direct that projects funded under this new national program can exceed the 5-year limit that otherwise applies to NRI-funded projects.

Through both ARS and CSREES, funding should be provided for partnerships with non-profit organizations and farmers and ranchers with a goal of increasing publicly available seeds and animal germplasm for sustainable and organic production systems, based on the models developed by the Farmer Cooperative Genome

Project, the Public Seed Initiative funded by USDA's Initiative for Future Agriculture and Food Systems, and the Organic Seed Partnership funded by USDA's Integrated Organic Program. Some of these funded partnerships should provide incentive programs for farmers and farmer associations to participate in testing, selection, seed increase, and evaluation of plant varieties in germplasm repositories.

No Time for Delay:

A Sustainable Agriculture Agenda for the 2007 Farm Bill

is available at www.sustainableagriculturecoalition.org

or from:

Sustainable Agriculture Coalition
110 Maryland Avenue NE
Washington, DC 20002
(202) 547-5754