

Midwestern
Governors'
Conference

POLICY OBJECTIVES AND
RECOMMENDATIONS ON THE
2002 FARM BILL

ADOPTED BY THE
MIDWESTERN GOVERNORS' CONFERENCE OF
THE COUNCIL OF STATE GOVERNMENTS
GOVERNOR THOMAS J. VILSACK, IOWA, CHAIR

AUGUST 2001

MIDWESTERN GOVERNORS' CONFERENCE

The Midwestern Governors' Conference (MGC) is a nonprofit, bipartisan organization that brings together top state leaders to work cooperatively on public policy issues of significance to the Midwestern region. The MGC was created in December 1962, when articles of organization were adopted at the first annual meeting in Chicago. The members of our conference include the governors of the following 13 Midwestern states: Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.

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It is our pleasure to present the following Policy Objectives and Recommendations on the 2002 Farm Bill, written and adopted by the Midwestern Governors' Conference.

Our colleagues, together with our state agriculture directors and agricultural policy advisors, developed this document as a means of voicing our priorities for the region's agricultural industry. We realize that agriculture plays an important role throughout our nation and that all Americans have a stake in future U.S. agricultural policy. Across the nation's heartland, agricultural and livestock production and processing are the most important industries in many rural communities.

These Policy Objectives and Recommendations on the 2002 Farm Bill were developed as a starting point to be used in developing and informing the debate as we begin to shape future U.S. agricultural policy. As state chief executives, we play a critical role in supporting federal agriculture policy and look forward to positive legislation that will ensure and guide the development of this vital industry.

The governors of the Midwestern Governors' Conference look forward to working with you in accomplishing this goal.

Sincerely,



Tom Vilsack
Governor of Iowa,
and Chair,
Midwestern Governors' Conference



Mike Johanns
Governor of Nebraska,
and Vice Chair,
Midwestern Governors' Conference

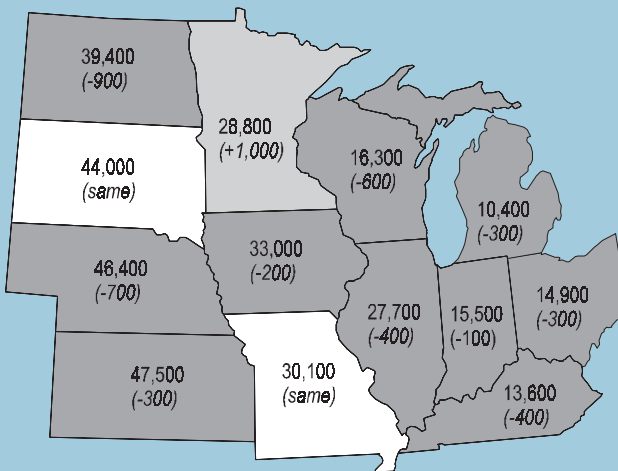


As Congress begins debate on reauthorization of the 1996 Federal Agriculture Improvement and Reform Act (1996 Farm Bill), it faces a U.S. agricultural sector undergoing profound structural change. In recent years, domestic and international developments have had a widespread impact on farmers, ranchers and agricultural processors in the Midwestern region. These changes include shifts in agricultural trade policy and environmental, safety and health regulation; historic crop price lows paired with yearly federal disaster payments; issues impacting rural development; and the emergence of new concerns such as biotechnology and the consolidation of input, marketing, transportation and processing sectors.

The Midwestern Governors' Conference (MGC) is cognizant of the huge impact these changes have brought to production agriculture and food processing in the region it represents. An MGC Agriculture Policy Task Force has spent several months developing this set of policy objectives to illustrate and clarify the Midwestern perspectives on the reauthorization of the 1996 Farm Bill and to set policy objectives for the 2002 Farm Bill.

ACRES OF FARMLAND

This map indicates the amount of acreage (in thousands) in farmland each Midwestern state has along with the change in figures between 1995 and 1999. The Midwest has 39 percent of the total farmland in the United States.



Source: Commission on 21st Century Production Agriculture (technical corrections submitted by Indiana and Missouri officials)

The 1996 Farm Bill accomplished several of its original objectives. It freed farmers from government interference in planting decisions. It allowed commodity prices to move at market clearing prices. It decoupled income supports from production decisions. Finally, it provided grain inputs for livestock and poultry producers at prices that allow them to be competitive in world markets.

The 1996 Farm Bill has also impacted U.S. agriculture in some unforeseen ways. In the past several years, Congress has had to annually supplement the base program with large infusions of emergency funding to secure farm income. In fiscal year 2001, \$3.5 billion in disaster assistance was approved for American farmers and ranchers forced to contend with drought, floods, fires and low market prices.

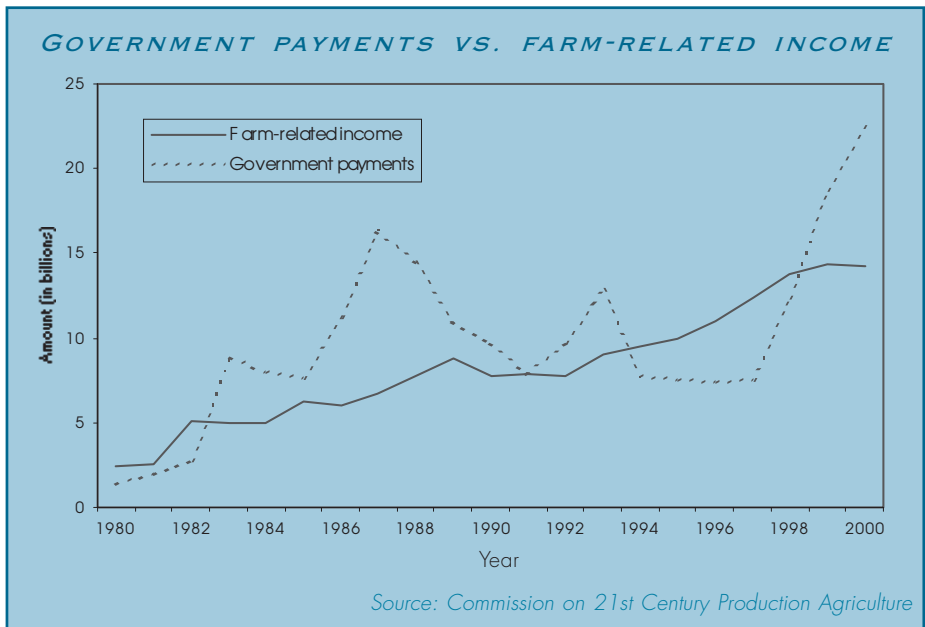
Since passage of the 1996 Farm Bill, farm gate prices have been far below trend lines and below the cost of production for many producers, requiring larger-than-expected expenditures for the loan deficiency programs. These factors have led to record federal direct payments to U.S. farmers. Individual farmers have received large payments, and payment limitations have been adjusted in an attempt to accommodate the nation's producers.

As we begin to discuss changes to our national agriculture policy, the MGC believes that it is of the utmost importance to understand this country's current and future obligations under the various multilateral trade accords such as the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) agreements. These obligations will most certainly frame the debate, especially if they restrict government farm payments aimed at raising prices in order to maintain farm income. If this is the case, then the new debate must focus on larger issues such as amending these agreements or developing new and more creative solutions in order to maintain farm income.

Government payments that support environmental benefits, such as the U.S. Department of Agriculture's Conservation Reserve Program, the Wetlands Reserve Program and the Environmental Quality Incentive Program, are acceptable under WTO and NAFTA rules. Increasingly, farmers and ranchers in the Midwest are participating in these programs because they understand the long-term private and public environmental benefits and because participating makes good business sense. However, taking U.S. acreage out of production has a negative side. Midwestern agricultural market share and farm income are lost to countries that have not agreed to similar subsidy restrictions and continue to develop ecologically sensitive property into arable land. These countries are not likely to complain about this situation, but U.S. policymakers should consider these issues when balancing the need to maintain production with the need to enhance land stewardship as part of a viable, long-term solution for our nation's agriculture industry.

Under the 1996 Farm Bill, producers assumed greater risks than had been previously seen in earlier federal legislation. The elimination of deficiency payments tied to price and production limits rewrote the risk management equation. Producers now make the planting decisions and assume more of the risk should crops fail and/or market prices fall below the true cost of production. While many risk management tools were available — such as the Federal Crop Insurance Program, revenue insurance and various types of advance contracting — these tools were inadequate in the face of recent market conditions and weather-related risks. The Agricultural Risk Protection Act of 2000 (ARPA) provided a number of improvements in risk management policy, but there is still much to do. While ARPA raised insurance subsidy formulas, increased fees for standard catastrophic risk protection, and provided funding for expanded risk management education pilot programs to include livestock and dairy options, it did not address the issue of moving toward the use of more actuarially sound programs and policies.

The MGC appreciates the challenges before Congress and the president as we begin to debate the 2002 Farm Bill. As U.S. agriculture enters a new millennium with an increasingly global focus, the challenge is to maintain a financially healthy and profitable agricultural sector, in the Midwest and other regions, in a manner that is consistent with U.S. multilateral trade obligations. The new legislation must work to increase the U.S. global market share and income for all of this country's agricultural producers and processors.



COMMODITIES

The 1996 Farm Bill reflects market conditions at the time the measure was debated and passed: a time of near-record-high prices for the major commodity crops. These prices began to slip in early 1998 as a result of various domestic and international economic events. By 2000, prices had fallen to near-historic lows. As a result of drastically changed market conditions, a number of the provisions initiated by the 1996 Farm Bill are inadequate to address commodity market conditions seen today.

The Agricultural Market Transition Act (AMTA) payment system, begun in 1996, does not stimulate planting intentions because payments to producers were fixed and tied to a predetermined acreage base that remains constant, regardless of market conditions. Even with the AMTA program, however, major congressionally appropriated, ad hoc emergency payments were needed beginning in 1998, and these payments are expected to continue into 2002.

New commodity support issues have also emerged since 1996, such as the U.S. Aggregate Measures of Support (AMS) commitments in the WTO agreement. The United States has committed to limiting the aggregate level of domestic support for agriculture costs of such trade-distorting programs to no more than \$19.1 billion for 2000 and beyond.

This underscores the importance of Congress and U.S. trade negotiators clearly understanding this country's commitments under the WTO agreement and NAFTA as they consider future U.S. commodity policy. The MGC supports our nation's trade negotiators in their efforts to clarify U.S. commitments prior to the passage of a new farm bill.

As a result of record government payments and continued low prices for the major commodity crops, the MGC supports an automatic counter-cyclical program that maintains planting decision flexibility yet provides a "reality check" when market conditions change dramatically.

The MGC urges Congress to re-examine the efficacy of U.S. dairy policy. Four broad areas of policy must be reviewed: regional dairy compacts; federal marketing orders; federal price supports; and issues of international marketing and increasing dairy imports. The MGC supports efforts to formulate a nationwide federal dairy policy that provides income security for dairy producers.

Finally, the MGC supports an expanded crop insurance program that meets multilateral agreement conditions.

The MGC supports the following reforms in U.S. commodity policy:

- Providing a better safety net by expanding or creating a new type of automatic counter-cyclical payment vs. yearly emergency payments;
- Maintaining production flexibility to plant without government interference;
- Reconciling domestic support commitments that the United States has made with the WTO and in NAFTA;
- Reviewing and evaluating market signals prior to changing commodity loan rates so that changing rates do not cause massive shifts in the types of crops being planted;
- Reviewing dairy issues such as regional compacts, federal marketing orders, federal price supports and increasing imports; and
- Expanding crop insurance programs to better cover livestock and specialty crops.

CONSERVATION & THE ENVIRONMENT

In the Midwestern region, millions of acres are under agricultural production. The MGC recognizes the huge impact that this production has on the environment and supports opportunities for cleaner water, better land stewardship and enhanced recreation for all Americans. We have an opportunity to take a bold leadership step early in this new century that will leave an unprecedented legacy for future users of the land.

The MGC believes that voluntary conservation programs, such as the Conservation Reserve Program (CRP), the Wetlands Reserve Program (WRP) and the Environmental Quality Incentive Program (EQIP), have provided significant benefits to farmers in the form of increased farm income and more sustainable, fertile, profitable soil. Furthermore, these programs have provided a public benefit in the form of improved water quality and wildlife habitat, better flood management, increased beauty of the landscape and an enhanced quality of life. The MGC supports increased government agricultural expenditures aimed at encouraging sound land stewardship. Increased funding should be in the form of block grants to the states or cooperative agreements that provide states with the flexibility to develop programs that meet their specific needs.

To achieve the best conservation return from these programs, there must be a strong, long-term partnership between federal agencies and individual states. Continued flexibility in program management is extremely important if states are to develop effective strategies that address increasingly stringent

and complicated federal regulations directed at improving the environmental performance of the agricultural industry. Across the Midwestern region there are wide differences in environmental need. These needs can best be met by incorporating more state and local input into the decision-making process. The MGC believes that the State Technical Committees have become an important implementation tool in facilitating long-term partnerships. They must have increasing flexibility in order to adapt federal programs to individual state needs.

The MGC believes that states must retain the flexibility to design functionally equivalent programs best suited to an individual state's needs. For example, state flexibility is required in developing management practices for both

CONSERVATION RESERVE PROGRAM ENROLLMENT

| State | Number of contracts | Total CRP acres | Average rental rates | Estimated rental payments |
|-------------------|---------------------|-------------------|----------------------|---------------------------|
| Illinois | 47,832 | 886,302 | \$94.8 | \$84,021,429 |
| Indiana | 17,840 | 282,294 | \$82.8 | \$23,373,943 |
| Iowa | 66,743 | 1,778,351 | \$97.9 | \$174,029,428 |
| Kansas | 34,683 | 2,655,694 | \$38.6 | \$102,573,329 |
| Kentucky | 9,361 | 301,743 | \$70.5 | \$21,269,864 |
| Michigan | 10,262 | 278,377 | \$58.3 | \$16,229,379 |
| Missouri | 27,962 | 1,536,139 | \$65.5 | \$100,555,658 |
| Minnesota | 37,946 | 1,586,938 | \$54.3 | \$86,218,341 |
| Nebraska | 17,935 | 1,135,035 | \$53.3 | \$60,463,314 |
| North Dakota | 31,469 | 3,318,245 | \$33.0 | \$109,502,085 |
| Ohio | 14,640 | 293,781 | \$78.3 | \$23,000,114 |
| South Dakota | 18,168 | 1,419,733 | \$40.2 | \$57,002,279 |
| Wisconsin | 25,804 | 635,426 | \$65.9 | \$41,849,156 |
| <i>U.S. total</i> | <i>515,208</i> | <i>33,488,444</i> | <i>\$46.0</i> | <i>\$1,540,133,540</i> |

Source: U.S. Department of Agriculture, Farm Service Agency (U.S. Senate Agriculture Committee testimony of Robert Stephenson, conservation and environmental programs director), February 2001

wildlife and water quality improvement on CRP, WRP and EQIP lands. Other examples include wetlands protection and the ability to automatically accept CRP applications based on the established Environmental Benefits Index and recommendations from the State Technical Committee. Another example includes an adjustment to the requirement for eligibility requiring land to be cropped in two of the last five years. This would not punish producers who made previous land use decisions based on the principles of land conservation. The MGC supports the Conservation Reserve Enhancement Program (CREP) because it has been designed to focus federal and state resources on environmentally sensitive lands. CREP illustrates how flexibility works for individual states while ensuring that federal standards are met.

To further direct our energies at accomplishing the goals of federal legislation, there needs to be clearly defined roles and responsibilities between technical direction and administration to avoid undue conflicts in implementation. These roles should clearly state the need for the Farm Service Agency to serve in the administrative capacity and the Natural Resource Conservation Service to provide technical direction.

The MGC supports voluntary, flexible, state-driven conservation and environmental protection programs as part of the next farm bill. We believe that this involves a recommitment to the intent and success of conservation programs, recognition of the vast public benefits of land conservation and environmental protection, and a significant financial commitment from federal and state agencies.

The MGC supports the following approaches to conservation and environmental programs:

- Defining clearly the roles and responsibilities between lead federal agencies for administrative capacity and technical direction; and
- Developing voluntary, flexible, state-driven conservation and environmental protection programs, with continued federal technical and financial support in the form of block grants or cooperative agreements.

TRANSPORTATION INFRASTRUCTURE

The competitiveness of U.S. agriculture depends on a healthy transportation infrastructure. Infrastructure investments in the 19th and 20th centuries led our nation to the prosperity we enjoy today. Railroads, highways, river navigation, electricity, communications and education were costly but necessary investments. They have allowed this country to become the world's low-cost and most reliable supplier of agricultural products.

Today, newer agricultural competitors are making huge investments in their

transportation infrastructure to position themselves as low-cost suppliers in the future. If U.S. agriculture is to remain competitive, resources must be committed to rebuild, repair and maintain our river, lock, rail and highway systems. Competitiveness begins with low-cost, reliable modes of accessing international and domestic markets.

Remote rural areas will continue to be hard-pressed to find already scarce funding for transportation infrastructure improvements. The MGC believes that U.S. consumers/taxpayers need to commit to investing in the nation's transportation infrastructure, especially in rural communities, in order to ensure that U.S. agricultural products reach global markets in a timely and competitive manner.

The MGC supports the following approach to enhancing the U.S. transportation infrastructure:

- Committing U.S. taxpayer resources to rebuild, repair and maintain our river, rail and highway systems, especially in rural agricultural production areas.

RURAL DEVELOPMENT

Rural areas with shrinking populations will continue to struggle to find the means necessary to maintain funding for education, health care, law enforcement and economic development. The MGC believes that U.S. taxpayers should commit to investing in the social infrastructure of agricultural communities to provide an adequate quality of life in rural America.

The MGC believes that a national rural development policy must be incorporated into future U.S. agricultural policy discussions. This policy must strive to improve the quality of life in rural America by providing financial assistance, working with rural communities and existing and new start-up businesses through partnerships, creating empowerment zones and providing technical assistance.

Two distinct types of rural counties and cities appear to characterize the 1990s. One has seen population increases and relative economic prosperity. The other, usually in more remote agricultural areas, has seen higher unemployment and population declines. Each type faces different policy issues. Smaller communities in growing areas are facing housing shortages and infrastructure deficiencies. Areas with declining populations must aggressively attract, retain and expand industry to generate better employment opportunities. The MGC supports federal policies that recognize both types of communities and assist local leaders in working to improve the future of their communities. The MGC also supports efforts designed to ensure that rural communities receive their fair share of federal assistance.

The MGC supports federal rural development policies that:

- Recognize and address the needs of rural communities both growing and declining in population and provide assistance to local leaders working to improve the future of their communities;
- Target money to specific issues in rural communities and ensure that these areas receive a fair and equitable share of federal assistance;
- Provide funding for the National Rural Development Partnership; and
- Assist state and local governments and communities in providing and accessing telecommunication tools such as high-speed Internet access to help rural communities retain business, employment and education opportunities.

TRADE & MARKETING

The United States has traditionally been the world's largest net exporter of agricultural products. In recent years, U.S. exports have declined due to world market conditions and cutbacks in U.S. agricultural export marketing programs.

The advancement of agricultural trade and marketing issues offers the greatest potential for the sustained viability of rural agricultural communities. Therefore, the MGC believes that the United States should again be proactive in seeking new markets and expanding existing ones.

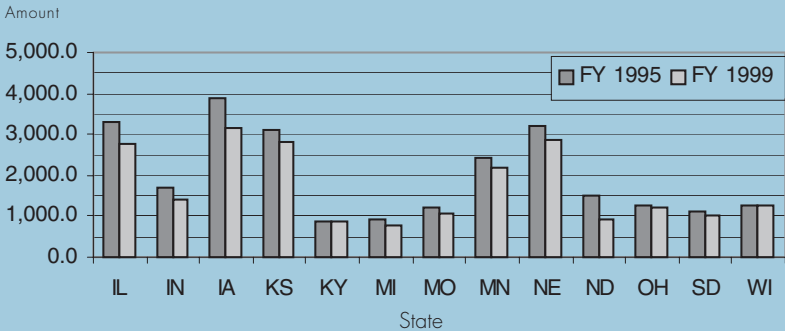
For U.S. agriculture to remain competitive in an increasingly global marketplace, it is crucial that Congress and the president enact policies to reduce trade barriers and increase access to foreign markets. Today, the U.S. agriculture sector exports one-third of its annual production and consistently has a positive balance of trade.

Unilateral trade sanctions that limit the movement of U.S. agricultural products and prevent access to certain foreign markets are ineffective foreign policy instruments. These policies must be re-examined and their effectiveness weighed against the opportunity cost to U.S. producers.

During the next round of WTO negotiations, the MGC encourages U.S. trade negotiators to play an aggressive role in reducing trade-distorting agricultural policies and barriers that limit access for this country's agricultural commodities into foreign markets. The MGC supports this country's comprehensive proposal on agriculture tabled at the WTO in June 2000.

The MGC supports seeking a process, through the WTO, to resolve some of the issues involving genetically enhanced products. A process needs to be established to identify and assess real scientific or consumer concerns that

*ESTIMATED VALUE OF MIDWESTERN
AGRICULTURAL EXPORTS (IN MILLIONS)*



Source: U.S. Department of Agriculture, Economic Research Service, Market and Trade Economics Division, Agriculture and Trade Outlook Branch

exist so that the market can respond to address those concerns.

The United States must take an aggressive stance to counter the unfair trade practices of other agricultural exporting countries. Therefore, the MGC supports export, market development and market promotion programs that assist U.S. agricultural producers in accessing foreign markets. Funding for commercial assistance programs and export market promotion — such as the U.S. Department of Agriculture's (USDA) Foreign Agricultural Service (FAS), the Market Access Program (MAP) and Export Enhancement Programs (EEP) — should be retained, if not increased.

The MGC supports pursuing opportunities for enhanced, freer and fairer international trade by:

- Encouraging U.S. trade negotiators to take an aggressive role in reducing trade-distorting agricultural policies and barriers that limit access for U.S. agricultural commodities into foreign markets;
- Seeking a process, through the WTO, to resolve some of the issues involving genetically enhanced products;
- Reconsidering the effectiveness of unilateral trade sanctions against the opportunity cost to U.S. producers;
- Supporting the U.S. comprehensive agriculture proposal tabled at the WTO; and
- Increasing funding for FAS, EEP and MAP international agricultural export programs.

RESEARCH & DEVELOPMENT

Publicly supported food and agricultural research and education were major contributors to the ascension of U.S. agriculture over the past century. U.S. food and agriculture researchers and educators have contributed to the “Green Revolution,” which has saved millions of people from starvation. Promising research breakthroughs in genetics, nutrition, information technology, food production and safety, and ecosystem management hold much promise for even greater strides in the 21st century.

Today this country is among the best-fed nations in the world. We spend the smallest share of our income on food. Yet, some \$100 billion of annual health costs are linked to poor diets and food-borne pathogens. U.S. agriculture’s continued viability and competitiveness in the global food system largely depend on technological, management and policy advancements based on the most sophisticated, cutting-edge research and education. Scientific studies indicate that each taxpayer dollar spent on agricultural research, extension and education yields \$8 worth of public benefits. These benefits are proportionately greater for low-income individuals, as they spend a larger percentage of their income on food.

Adjusting for inflation, federal investment in food and agricultural research has been flat for the past two decades. Federal spending on health research, however, has more than doubled. Today, federal spending for the National Institutes of Health is nearly \$18 billion, 10 times that of food and agricultural research, extension and education at the USDA. The MGC supports an increase in the USDA’s food and agricultural research budget.

The MGC supports U.S. agricultural research and development efforts through:

- Increasing the USDA’s budget for food and agricultural research, extension and education.

VALUE-ADDED PRODUCTS & THE BIOECONOMY OF THE FUTURE

Each region of the United States is unique in terms of its agronomic conditions, on-farm resources, market access, price basis, transportation systems and other factors. These factors all affect the types of specialty crops and livestock that can be profitably produced; the potential for value-added processing, products, technologies and services; and the development of new bio-based products in each region of the country.

The U.S. food and fiber production, manufacturing and distribution industries are in the midst of major structural change. There is significant potential for collaboration in innovations between major private sector partners as

well as new-era producer cooperatives and producer alliances. These collaborations can help recreate and maintain diversity in U.S. agriculture and agribusiness as new opportunities in the agricultural sector emerge.

The Midwestern region is exceptionally well positioned with strong agricultural research capabilities at its universities and its federal and private research laboratories. Global technology companies are accelerating the translation of scientific discoveries into new life science, value-added, bio-based products, processes, and services and technologies — all of which create new jobs, businesses and economic wealth and open up new opportunities for rural and urban economies.

Today we see opportunities for a new bioeconomy of the future led by biomass and bio-based products. These are new products derived and produced from renewable and recurring resources. Examples include using dedicated crops and trees for energy and using agricultural food and feed crop residues, aquatic plants, wood and wood residues, or animal wastes as feedstocks for other bio-based industrial products and technologies.

Bio-based products, processes, technologies and services can: (1) stimulate the creation and early adoption of technologies needed to make bio-based products and bioenergy cost competitive in large national and international markets; (2) reduce U.S. dependence on foreign oil, biochemicals and biomaterials, which are non-renewable and economically less stable; (3) improve air quality, water quality, flood control and soil erosion; (4) support farm income and rural economies by creating new bio-based industrial plants; and (5) introduce environmentally friendly technologies that may reduce impacts on global climate change.

The MGC believes that the following programs and financial incentives should be considered for value-added and bio-based products, processes, technologies and services:

- Developing and promoting food and fiber value-added, bio-based products and services;
- Financing for value-added and bio-based agricultural businesses through block grants to states, loans and equity investments;
- Creating development zones for value-added and bio-based agricultural development using tax incentives, low interest loans and block grants; and
- Funding commercialization research and development for value-added and bio-based products, services and technologies, leading to the enhanced use of biomass and bio-based conversion into industrial products, fuels, medicines, specialty chemicals, building materials, textiles and plastics.

CREDIT

The availability of competitively priced credit is crucial to the success of agriculture in the Midwestern region. As industry consolidations increase at a rapid pace, new financial products and innovative credit delivery approaches are emerging to reshape the traditional agricultural financial services industry. The MGC urges Congress to support access to reliable, competitively priced credit and retention of the Agriculture Bond Program, in conjunction with changes in the tax code, to broaden the types of eligible activities and borrowers.

The MGC supports:

- Increasing access to reliable and competitively priced credit; and
- Retaining the Agriculture Bond Program.

BIOTECHNOLOGY

Agricultural biotechnology research is used today to ensure that plants are tougher — more resistant to heat, cold, weeds and pests. Genes have been added to maize and rice, making the grains resistant to certain toxins; this allows foods to grow on lands that were previously unproductive. Genetic engineers are also using science to grow food with added nutritional value, such as corn with enhanced vitamins and rice with Vitamin A.

Biotechnology also enables farmers to grow corn and beans that are resistant to pests and weeds without using chemicals, thereby enabling plants to more effectively use the nutrition in the soil. The result is less tillage, less need for irrigation, less erosion, less topsoil loss and less chemical runoff. This translates into more productive soil, cleaner water and an all-around healthier environment.

The United States currently leads the world in agricultural biotechnology for food and fiber production as a result of our continued investment in scientific research. The MGC believes that this scientific analysis is critical to the public policy decision-making process so that an accurate evaluation of the benefits and risks of agricultural biotechnology is available. Funding for basic and applied research in both plant and animal science is very important to our nation's ability to optimize the benefits of this technology. This type of research should continue to be funded and further enhanced.

The success of agricultural biotechnology both in the United States and worldwide in part depends upon consumers' perceptions of the safety and efficacy of these products. The MGC strongly supports biotechnology regulation based on sound science. It is important that both producers and consumers fully understand the facts behind the science and the technology.

The integrity of the regulatory process involving biotechnology products must be carefully developed in order to maintain consumer confidence in domestic and international markets. Further, the MGC believes that processes must be established to identify and assess the barriers that inhibit the marketing of biotechnology products and processes in international markets. The roles of the Environmental Protection Agency (EPA), the Food and Drug Administration (FDA) and the USDA must be clarified to ensure that genetically enhanced (GE) crops are not released until they are approved for export markets or until there is a segregation or channeling system in place to prevent the commingling of GE and non-GE crops. The MGC encourages the federal government to work with industry, growers and other countries to establish reasonable tolerance levels for GE crops.

The MGC supports the following policies regarding biotechnology:

- Increased funding for basic and applied biotechnology research;
- Biotechnology regulation based on sound science;
- Early identification and assessment of barriers to trade in biotechnology products;
- Clarification of federal roles in ensuring that GE and non-GE crops can be segregated for export markets; and
- Increased federal support aimed at working with industry, growers and importers to establish a reasonable tolerance for GE crops.

RISK MANAGEMENT

The Agricultural Risk Protection Act of 2000 (ARPA 2000) did much to address and improve the risk management environment for U.S. agricultural producers. The increase in the premium subsidy rate will make crop and revenue insurance more affordable for the majority of U.S. producers and encourage wider participation. Changes in the average per-acre yield calculation formula will provide substantial relief to producers affected by multi-year yield disasters. Also, changes in the administration and delivery of crop and revenue insurance will make these programs more actuarially sound.

The MGC is encouraged by the swiftness and diligence of the USDA Risk Management Agency's (RMA) implementation of ARPA 2000 and urges continued timely implementation of the remaining provisions. In particular, the MGC supports the RMA's work with private insurers to develop pilot livestock revenue insurance policies authorized under ARPA 2000. The MGC encourages the RMA to also work with private insurers in the development of a whole farm revenue or cost of production insurance product that might substantially improve the safety net for U.S. producers.

Further, the MGC supports improvements in the way that the RMA handles quality discounts. Recently, Midwestern producers have suffered serious financial losses because the discount scales used for crop insurance do not reflect market price discounts.

The MGC supports the use of more federal money to enhance risk management education efforts developed by the RMA, the USDA's Conservation State Research, Education, and Extension Services (CSREES), and other organizations involved in risk management education. In particular, the RMA and CSREES should continue to work together to construct a national and regional risk management education infrastructure that effectively utilizes limited federal and state financial resources. The MGC also supports additional federal allocations for research and for the development of innovative risk management products in both the private and public sectors. The MGC supports efforts, under the Commodity Futures Modernization Act of 2000, to remove burdensome regulations on U.S. commodity futures exchanges and to encourage the development of innovative new tools for the agricultural and financial marketplaces to manage agricultural risks.

Finally, the MGC supports legislation authorizing the creation of Farm and Ranch Risk Management accounts (FARRM) that allow U.S. producers to set aside money for a rainy day.

The MGC supports enhancements to current risk management tools through:

- Monitoring the effectiveness of recent crop insurance reforms;
- Reviewing the effectiveness of the loan deficiency program;
- Working through the RMA to assist private insurers in developing whole farm revenue policies that are more actuarially sound;
- Improving the RMA's quality discount program;
- Developing pilot programs for livestock and specialty or alternative crops;
- Increasing risk management education funding; and
- Creating FARRM accounts.

REGULATORY REFORM OF FEDERAL ENVIRONMENTAL PROGRAMS

Agricultural activities have a profound impact on our water, air and land, just as pollution has detrimental effects on agriculture. Air pollution in the form of ground-level ozone hampers the development of soybeans. According to several research studies, water polluted by excessive nitrates reduces

growth rates in livestock. These are just two examples of areas where regulatory programs have failed to recognize the agricultural community's need for reform and flexibility in environmental regulation.

Agriculture's dominance over the Midwestern economic and natural landscape necessitates a push for reform of environmental regulations. The MGC believes that significant reforms in the basic environmental regulatory scheme are needed.

State flexibility in implementing functionally equivalent alternatives is essential to regulatory reform. For example, to address environmental impacts from concentrated animal feeding operations, a number of Midwestern states already use alternative approaches such as nutrient management plans, technical and financial assistance, and proactive inspections to effectively meet the national environmental performance standards. Regulatory reform must focus on innovative and flexible opportunities to design new strategies for pollution prevention, control and cleanup; explicit regulation; data burden reduction; and mechanisms for managing the regional nature of many pollutants.

Because states are the primary implementers and enforcers of federal environmental regulation, they have developed a significant practical and technical knowledge base that should be used to inform proposed federal regulatory reforms. This experience is needed in order to make existing regulatory programs more flexible and provide states with more opportunities to craft regional or agriculture-specific control strategies.

Although not limited to agricultural matters, there are two recent trends that have increased state regulatory burdens. First, there has been a federal trend toward "regulation by guidance." By reducing the number of formal rulemakings, as counted under "regulatory reform," the federal bureaucracy avoids congressional review and forces states to craft questionable implementation authorities under the threat that failure to do so will result in the loss of federal money or technical assistance.

In all environmental media, we see "regulation by guidance" force states into prolonged fights. Federal agencies mandate that states adopt these policies or justify to the regulated communities and affected citizens why these unnoticed, informal positions must be followed. For example, under the Combined Sewer Overflows Program, minimum effluent standards are based on guidance. The Prevention of Significant Deterioration Program is also governed by the accumulated guidance assembled in three notebooks of memos, examples and court cases labeled by the EPA as "draft" guidance for more than a decade. These guidance programs should be eliminated or returned to formal rulemaking procedures.

A second disturbing trend is the extensive and duplicative data management

and reporting requirements. Most are of questionable utility, and the misapplication of data has directed public criticism at state programs. The MGC supports the use of simple performance measures to replace program activity measures. These measures, directly linked to environmental quality, should provide federal and state regulators and the states' citizenries with the information they need to assess whether state implementation and enforcement has yielded environmental benefits. The MGC supports increased reporting via the Internet; this cuts costs and improves accuracy by reducing multiple data entry points (federal, state and localities).

The regional nature of pollution problems will dominate our future view of environmental protection. Federal agencies must become more responsive to requests by states and regions to work together to develop complex multistate solutions to problems such as hypoxia in the Gulf of Mexico; the transport of ozone, haze and other air pollutants across state boundaries; and other environmental problems that have regionally based causes and effects. Federal funding should be used to prevent environmental degradation by fostering community-based solutions.

Finally, regulatory programs used to develop sustainable plans for water quality improvements, such as TMDLs (total maximum daily loads), must be revised to meet the challenge of controlling non-point sources of pollution from agricultural and non-agricultural sources. Diverse water quality and use needs — from farm lot or pond, to processing plant, to high-tech, value-added agriculture — must be adequately addressed.

The MGC supports regulatory reform of environmental programs, including:

- Increasing federal-state consultation on implementation and enforcement of existing and future environmental regulations as they relate to agriculture;
- Giving states maximum flexibility in implementing the functional equivalent approach to environmental protection;
- Returning to formal rulemaking procedures in lieu of issuing federal "guidance;"
- Rationalizing extensive and duplicative environmental data management and reporting, with an increased use of reporting via the Internet;
- Using performance measures to replace vague program activity measures;
- Increasing federal support for requests by states and regions to develop complex multistate environmental solutions; and
- Revising TMDLs and other water quality improvement regulations to better control for non-point source pollution.

TAX REFORM

The MGC recognizes the importance and impact that changes in overall tax policy can have on the agricultural sector of the economy. The MGC supports a re-examination of the tax code's impact on farm income because of the cyclical nature of agricultural income.

NET GOVERNMENT TRANSACTIONS AND FARM INCOME (IN THOUSANDS)

| State | Net farm income (1998) | Government Transactions (1998) | Net farm income (1999) | Government Transactions (1999) |
|--------------|------------------------|--------------------------------|------------------------|--------------------------------|
| Illinois | \$1,461,672 | \$428,529 | \$1,007,007 | \$1,205,866 |
| Indiana | \$811,039 | \$198,889 | \$420,822 | \$546,433 |
| Iowa | \$2,242,037 | \$568,786 | \$1,450,176 | \$1,298,521 |
| Kansas | \$1,485,251 | \$600,441 | \$1,547,850 | \$1,114,159 |
| Kentucky | \$1,155,451 | \$42,107 | \$846,974 | \$131,487 |
| Michigan | \$357,115 | \$23,378 | \$658,575 | \$207,532 |
| Missouri | \$773,782 | \$266,778 | \$404,773 | \$533,348 |
| Minnesota | \$1,498,620 | \$451,083 | \$1,257,252 | \$951,311 |
| Nebraska | \$1,832,821 | \$358,597 | \$1,650,646 | \$887,048 |
| North Dakota | \$786,124 | \$433,894 | \$452,137 | \$785,600 |
| Ohio | \$1,280,091 | \$116,773 | \$802,983 | \$432,768 |
| South Dakota | \$1,232,798 | \$243,117 | \$1,189,945 | \$561,918 |
| Wisconsin | \$875,645 | (\$165,251) | \$878,986 | \$71,997 |

Source: U.S. Department of Agriculture, Economic Research Service

INVASIVE SPECIES

The Midwestern region has become a focal point for the introduction of invasive species because of its location. The Great Lakes region plays host to major international shipping and air transportation systems. The MGC

supports the use of biological control strategies and the development of a coordinated administrative structure to enhance detection of invasive species. This should be a joint priority of the USDA and state partners.

The appearance of new and re-emerging diseases, as well as animal and plant pests, is forcing a shift in national research priorities in animal, plant and human health. The application of emerging technologies has altered the way research on infectious and exotic diseases and invasive species is conducted. Studies funded by state and federal agencies or private industry now must be conducted under strict safeguards designed to protect the plants and animals involved as well as the researchers and the public. Currently, states are lacking the facilities that would permit the safe handling of infectious agents and animal and plant pests. Meeting this need is crucial to ensuring food safety, preventing antibiotic-resistant infections, eradicating diseases such as Johne's disease in cattle and the Pseudorabies virus in swine, and for protecting livestock and humans against bioterrorism.

The MGC supports federally funded biocontainment buildings for conducting public research at the nation's land grant universities. These facilities will provide isolation rooms to permit work with drugs, chemicals, recombinant DNA, viral and bacterial agents, and invasive species in a safe manner. In addition, they will help prepare for new outbreaks of disease, animal and plant pests, or acts of bioterrorism.

The MGC supports the following approaches toward invasive species:

- Development of a coordinated administrative structure that includes the USDA and states to review invasive species management and biological control activities in the region; and
- Increases in federally funded public research biocontainment buildings at the nation's land grant universities.

FEDERAL-STATE COOPERATION

Agencies such as the USDA and the FDA have successful federal-state cooperative programs. These programs have served states well. However, in the current environment of government downsizing, competing priorities, increasing resource constraints, growing consumer demands and industry's desire for a level playing field, improvements in the way the federal government does business are necessary.

The MGC believes innovative strategies are needed to ensure that agency mandates are achieved and industry and consumer concerns are addressed with equal vigor. The goal is to maximize the utilization of available resources in the most efficient and effective manner while achieving the highest level of service delivery. The MGC supports federal agency authority

to enter into cooperative agreements with the states in implementing all agricultural and food policies and programs benefiting U.S. producers, rural communities and consumers. The MGC believes that the Natural Resource Conservation Service and the Farm Service Agency should coordinate the delivery of their conservation programs through state and local entities, as well as private and nonprofit organizations. Additional cooperation between state and local entities and the USDA's Rural Development Agency should be achieved. The federal government should also encourage communication between federal, state and local agencies, affording state regulators every opportunity to seek clarification and recommend changes when federal policies are inconsistent, unclear or inadequate.

For example, the 1996 Farm Bill required the development of State Technical Committees, which are responsible for providing recommendations to the USDA on conservation programs and consist of representatives from state and federal natural resource agencies and agricultural and environmental organizations. The MGC believes these committees have improved coordination among local, state and federal programs, including USDA programs, and should be continued.

The MGC supports the following approaches toward increasing federal-state cooperation:

- Providing federal agencies with the authority to enter into cooperative agreements with states to effectively implement agricultural and food policies and programs;
- Coordinating delivery of the Natural Resource Conservation Service and the Farm Service Agency conservation programs; and
- Continuing use of State Technical Committees as they have improved coordination among local, state and federal programs.

CONCENTRATION & CONSOLIDATION

Production agriculture and agribusiness continue to undergo major structural change at a rapid pace. Increasingly, U.S. agriculture is characterized by fewer farms, while the average size of farms is greater than in the past. In addition, there is more vertical integration, more contract production and more corporate ownership of commodities. The MGC believes that consolidations and subsequent concentration within the U.S. agricultural sector can have an adverse economic impact on smaller-sized, family farms and consumers in the Midwestern region by reducing opportunities for competitiveness. As a few large firms dominate sales, market access, production and capacity in certain segments of the agricultural industry and market — such as in meatpacking — there is less opportunity for price discovery and greater

opportunity for price and market manipulation or distortions. For independent producers, profit margins have become slimmer in recent years as the farm-to-retail price spread has widened.

Unfair market exclusions caused by outdated federal regulations or anti-competitive business practices can cause market distortions and result in artificially low farm prices. These distortions further stress family farmers and add costs to federal farm programs. As options for fostering fairer competition in the marketplace are discussed, the MGC urges Congress to revise policies that preclude meat and poultry food products from being marketed between states, even if these products have been approved by a state inspection program meeting federal standards. Repeal of this anachronistic federal law prohibiting such interstate marketing will allow family

*FARMING EMPLOYMENT
IN THE MIDWEST*

| State | Population (1997) | % of farm-related jobs (1997) |
|--------------|-------------------|-------------------------------|
| Illinois | 11.9 million | 13.6% |
| Indiana | 5.8 million | 14.8% |
| Iowa | 2.8 million | 22.2% |
| Kansas | 2.6 million | 18.3% |
| Kentucky | 3.9 million | 19.3% |
| Michigan | 9.7 million | 12.9% |
| Missouri | 5.4 million | 16.3% |
| Minnesota | 4.6 million | 15.5% |
| Nebraska | 1.6 million | 21.8% |
| North Dakota | 641,000 | 23.5% |
| Ohio | 11.1 million | 13.7% |
| South Dakota | 738,000 | 22.3% |
| Wisconsin | 5.2 million | 17.4% |

Source: U.S. Department of Agriculture, Economic Research Service

farmers and small-business owners to enjoy the same market access enjoyed by large farming operations.

The MGC supports the review of existing statutes outlawing anti-competitive practices and, where necessary, the development of legislation strengthening enforcement activities. To that end, the MGC encourages the U.S. Department of Justice to enhance its efforts to enforce antitrust laws as they relate to agriculture and to ensure that proposed cooperative or vertical integration arrangements maintain independent producers' access to markets. We also support granting the USDA the authority to review and provide recommendations to the Department of Justice on agribusiness mergers and acquisitions. The USDA should also be given authority to investigate mergers, consolidation or concentration of agricultural input suppliers and processors for antitrust or anticompetitive activities.

The MGC supports:

- Repealing policies that preclude federally approved, state-inspected meat and poultry food products from being marketed between states;
- Encouraging the Department of Justice to enhance its efforts to enforce the antitrust laws as they relate to agriculture; and
- Granting the USDA authority to review and provide recommendations to the Department of Justice on agribusiness mergers and acquisitions, as well as the authority to investigate mergers, consolidation or concentration of agricultural input suppliers and processors.

FOOD NUTRITION & SAFETY

The United States enjoys the safest food supply in the world due to the laws and regulations that protect the health and safety of the American public. However, even a successful system can become outdated and inefficient if it does not keep pace with emerging threats and technological advances.

The MGC believes that a more modern and seamless food safety regulatory system should be based on the risk of hazard. It should employ the best available, scientifically proven technologies, such as irradiation, and other methodologies, such as Hazard Analysis and Critical Control Points (HACCP). Through increased use of risk-assessment data, the federal government should support HACCP planning to identify and control food safety hazards and conduct microbiological testing at critical points throughout the food production and processing industry (including shell eggs). We recognize that, at this time, insufficient science-based, pre-harvest, epidemiological and ecological data exist for the food-borne pathogens of concern to make it possible to have a mandatory pre-harvest program. Therefore, the MGC supports voluntary HACCP beginning at the farm and continuing

through processing stages and throughout the subsequent transportation of food to market.

The MGC supports the integrated federal food safety planning efforts begun in September 1998 by the FDA and supports addressing the critical role that state and local agencies play in the food safety system. There should be an ongoing mechanism allowing state and local agencies to provide input that helps identify and correct outdated federal policies which hinder establishment of such a system.

The MGC supports increased, consistent amenability to regulatory oversight. Traditionally, meat and poultry food product inspection has been based on the amount of meat or poultry in a product rather than the potential consumer-health risks of those products. Increased productivity, varying consumer preference and the lack of a consistent nationwide inspection program are exempting some products from inspection. This is not acceptable. All food products entering commerce, both traditional and non-traditional, should be included in the inspection process.

Implementation of the 1996 Food Quality Protection Act (FQPA) must be supported by sound science that balances the interests and needs of farmers, processors and consumers. The EPA and the USDA must work together to assess actual farmer pesticide use and exposure data when conducting tolerance risk assessments. Reliance on default assumption data may vastly overestimate actual pesticide use and should be minimized whenever possible. Alternative pest management tools should also be reviewed prior to pesticide cancellation.

The MGC does not support federal pre-emption of state food regulations under the federal Food, Drug and Cosmetic Act. States must retain the right to regulate the food supply in a manner at least equal to or greater than federal standards and have the authority to regulate food products and food-handling establishments not regulated by the federal government.

Public education is also part of a more modern, science-based food safety program. As additional approvals are given, the USDA should fund educational efforts to provide consumers with accurate information about effective technologies used to better assure food safety. The development of consumer information materials should target those persons at higher risk for food-borne illnesses and include educational information on technological advances such as irradiation and agricultural biotechnology. The MGC supports consistency and clarification in federal labeling laws, especially warning labels and other information statements on food products. While it is important to make information available to sensitive populations, today's federal requirements are inconsistent and often lead to confusion and misinformation about products.

The MGC urges Congress to consider the following as it modernizes the U.S. food safety system:

- Revising the food safety regulatory system based on the risk of hazard, as well as the best available, scientifically proven technologies, such as irradiation, and other methodologies, such as voluntary HACCP;
- Establishing an ongoing mechanism for input from state and local agencies to identify and correct outdated federal policies;
- Inspecting all food products — both traditional and non-traditional — entering commerce;
- Assessing actual farmer pesticide use and exposure data through cooperation between the EPA and the USDA to conduct tolerance risk assessments;
- Making clear the stated goals, defined roles and responsibilities for federal, state and local partners;
- Developing flexible, minimum uniform standards that harmonize with international standards and reconsidering laboratory standards, certification and accreditation;
- Providing adequate funds to support state and local food regulatory participation under the federal Food, Drug and Cosmetic Act;
- Developing a centralized national database with timely and accurate information on epidemiological studies, food-borne illnesses, sample test data and recalls;
- Developing an effective, coordinated, uniform and consistent compliance program that utilizes progressive enforcement provisions; outlines intervention strategies; provides for creative public communication, education and training; and includes deputizing authority; and
- Establishing consistent and clear federal labeling laws, especially for warning labels and other information statements on food products.

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Midwestern Governors' Conference

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