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2007 Farm Bill: Policy Options and Consequences for Northeast Specialty Crop Industries, Small Farms, and Sustainability. Report on Listening Sessions

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Introduction

This report summarizes Phase I of the project "2007 Farm Bill: Policy Options and Consequences for Northeast Specialty Crop Industries, Small Farms, and Sustainability". The purpose of Phase I is to solicit information and feedback on specialty crop industry members' views and preferences with respect to the upcoming 2007 Farm Bill. Several aspects of Federal support for specialty crop producers are considered. This information will be used to gauge responsiveness to a wide set of policy options and possible directions for titles that might be incorporated into the next farm bill. These options and directions range from direct income support to enhanced environmental and conservation programming that is tailored to the needs of specialty crop producers. The geographic focus of this report encompasses the Northeastern US, defined here to include 12 states—Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, and West Virginia.

To accomplish this task, we organized a series of listening sessions and administered a mail survey that focused on the views and opinions of representatives from specialty crop organizations across the Northeast region. We complemented these activities with contacts with individual growers, extension educators, members of the agribusiness community, and state agricultural officials. The backbone of our information gathering effort was a mail survey that was administered to 75 agricultural organizations across the region (see appendix A for a copy of the survey). This survey was comprehensive in the sense that we contacted all organizations that we could identify after reviewing web sites maintained by state departments of agriculture in all 12 Northeast states. We asked either the organization's president or the managing director of the organization to complete the survey questionnaire. In many cases, these individuals indicated that they completed the questionnaire after canvassing the views and opinions of their membership. We received survey responses from 37 organizations, nearly 50% of the organizations contacted.

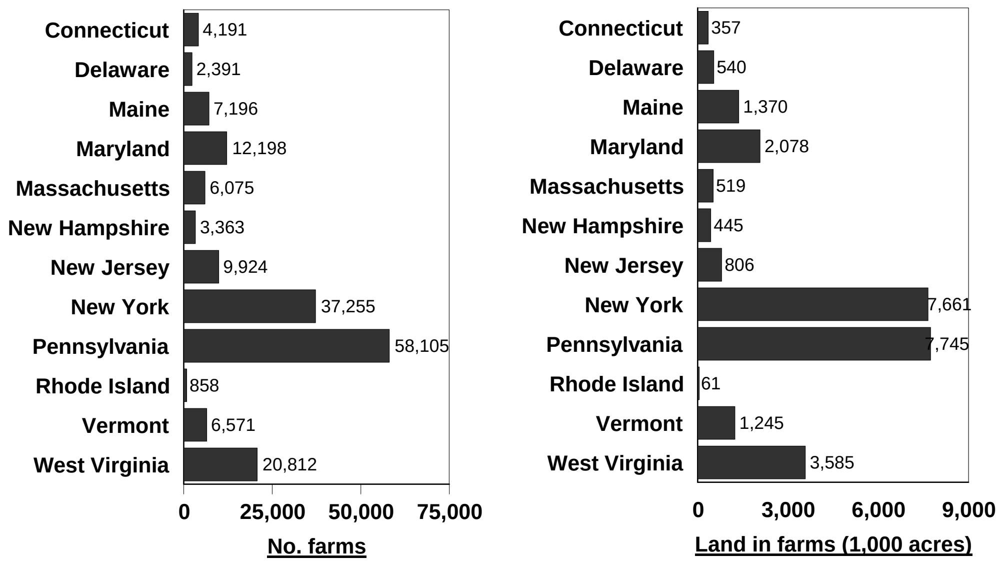
The organizing principles for the listening sessions and survey of commodity organizations included our own definition of specialty crop agriculture and close adherence to the data collection design used in a national public preferences survey being sponsored by the Farm Foundation. With respect to the latter, we designed our questionnaire and oriented our listening sessions around a line of questioning laid out by the Farm Foundation effort. Our definition of specialty crops includes the following categories: fruit, vegetables, floriculture, nursery, turf, maple syrup, Christmas trees, aquaculture, honey, and mushrooms.

Despite our decided efforts, these data and information gathering methods may not be completely representative of the entire industry in Northeast. The commodities represented, combined with the structure of farms engaged in their production, necessarily means that the community of specialty crop growers and interests is varied and quite fragmented. However, we were clearly able to engage with numerous influential members of these industries. We were able to identify and articulate common threads that emerge around concerns with Federal agricultural policy and the repercussions for specialty crop industries.

Specialty crop production in the Northeast

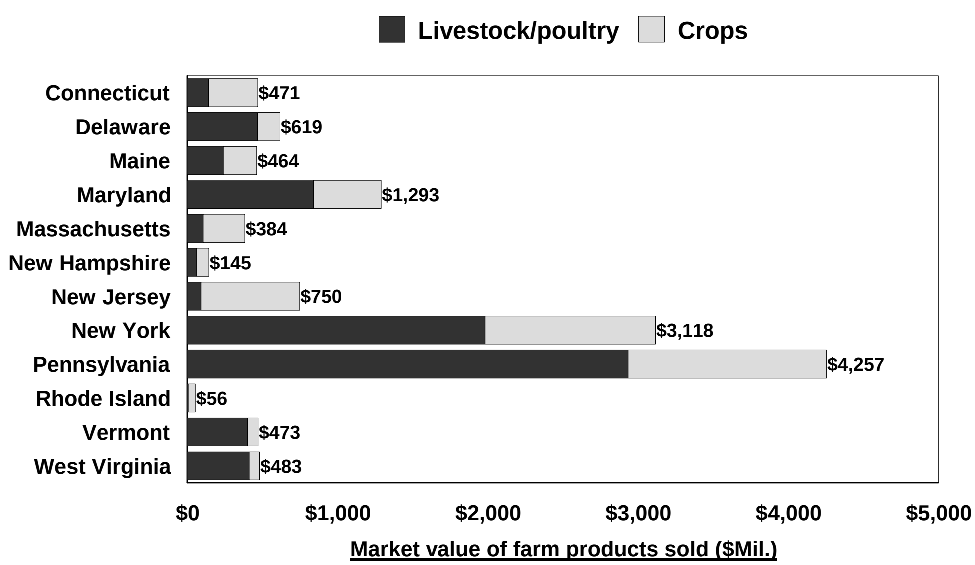
To provide context for the policy discussion that follows, we summarize the most recent Census data to highlight some of the most salient features of Northeast agriculture and the role of specialty crop production. As noted above, specialty crop industries are very heterogeneous, both in terms of crops grown and marketing channels used to move that product into local, regional, national,

Figure 1. Farms and Land in Farms, Northeastern US, 2002



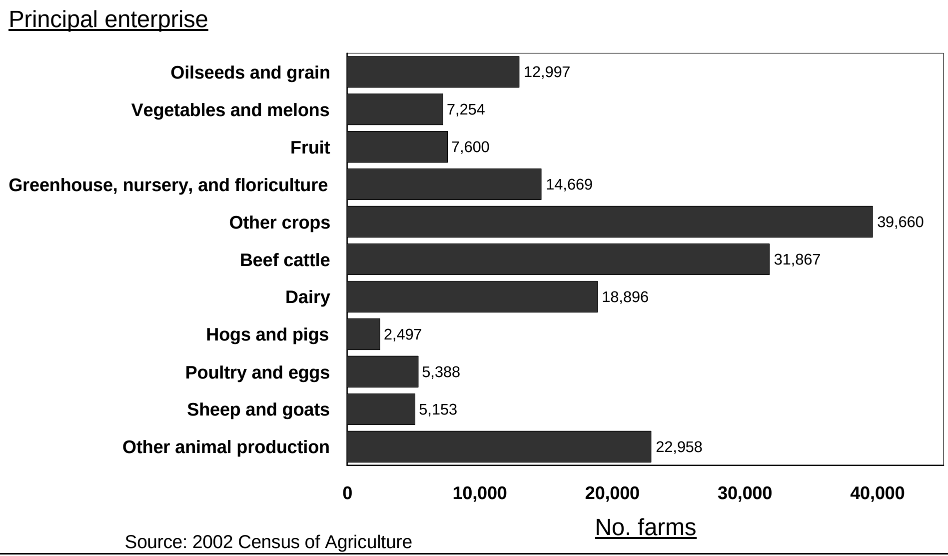
Source: 2002 Census of Agriculture

Figure 2. Market value of farm products sold, Northeastern US, 2002



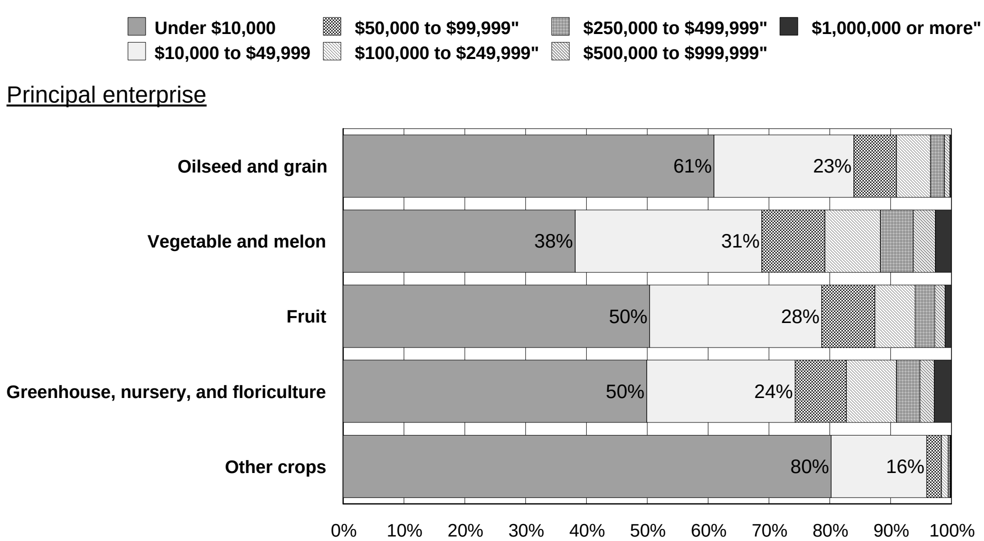
Source: 2002 Census of Agriculture

Figure 3. Farms classified by principal enterprise, 12 Northeast states, 2002



Source: 2002 Census of Agriculture

Figure 4. Farms classified by principal enterprise and dollar amount of farm products sold/government payments, 12 Northeast states, 2002



Source: 2002 Census of Agriculture

Figure 5. Specialty crops with a national rank of 10 or higher, 12 Northeast states, 2002

Commodity	New England	Delaware	Maryland	New Jersey	New York	Pennsyl-vania	West Virginia
	……..State rank based on acreage/area, unless otherwise noted…………						
Potatoes	6						
Broccoli	4				8		
Cucumbers and pickles				4			
Eggplant		7	8	9	5		
Green peas		7	8	9	5		
Pumpkins	5				4	3	
Snap beans					3	10	
Squash	5			7	6		
Sweet com					4	10	
Tomatoes				8		9	
Apples	7				2	5	10
Grapes					3	6	
Peaches				4		7	
Pears					4	5	
High Bush blueberries				2	10		
Wild blueberries	1				2	3	
Cranberries	2						
Raspberries	5				7	6	
Strawberries	8				5	6	
Nursery/greenhouse-under cover	9					3	
Nursery/greenhouse-in open				10		8	
Floriculture crops-under glass	7				9	6	
Floriculture crops-in open	8			4	9		
Cut Christmas trees	7				5	4	
Nursery stock	7				6	5	
Sod harvested				9			
Greenhouse vegetables	8				6	7	
Maple trees tapped (number of taps)	1		10		2	6	

Source: Compiled from the 2002 Census of Agriculture and international markets. Although the Northeast is the nation's most densely populated region with considerable territory poorly suited to modern farm and food production, the 12-state area includes nearly 170,000 farms according to the 2002 Census of Agriculture (see Figure 1). These farm units have a land base of about 26.4 million acres; this represents 21% of the region's total land area. While not demonstrated here, the region has experienced a well-documented and much discussed reduction in farms and farmland since World War II. Some of this territory is now in developed uses but immense acreages have reverted to brush or forest cover. Today, well over 60% of the Northeast is classified as forestland.

Referring once again to Census data, the market value of farm products sold in the 12-state area topped $12.5 billion in 2002 (Figure 2). Crop sales accounted for $4.8 billion or 38% of total farm product sales. Not unexpectedly, approximately 60 percent of all crops sales in the Northeast originate in New York and Pennsylvania. However, a noticeable contribution comes from Maryland and New Jersey; similarly, a noticeable amount of crop sales originate in Connecticut and Massachusetts.

Because of product diversity and gaps in data, the presence of specialty crop industries identified for this study is not completely transparent in Census information. For purposes here, we rely on census data organized by principal commodity. As in years past, the 2002 Census classifies farms based on the pattern of cash receipts. Following this procedure, as shown in Figure 3, the Northeast has more than 29,000 farms principally engaged in the production of vegetables/melons, fruit, nursery, greenhouse, and floriculture crops. In addition, some specialty crop production obviously occurs on farms categorized as "other crop farms" or on farms principally organized as livestock or poultry farms.

Scale of specialty crop production is highly varied as well. Census data suggest that the distribution of specialty crop farms by size is bimodal with large numbers concentrated at the economic margin with sales of $10,000 or less (see Figure 4). Census data show that percentage of farms with sales under $10,000 per year are 38, 50, and 50%, respectively, for vegetable, fruit, and greenhouse/nursery/floriculture operations. At the other extreme, many specialty crop farms in the region are organized on a large-scale; in addition, some growers are growing their businesses by exploiting economic interests in direct marketing, transport, food processing and other value added activities.

There are also significant differences among Northeast states in terms of specialty crop commodities produced. The Northeast has significant percentages of the national production and highly visible commodity groups in apples, juice grapes, blueberries, cranberries, sweet corn and other vegetables, maple syrup, and potatoes. Less well recognized is the presence of Northeast growers in numerous other specialty crop areas. For important examples, refer to Figure 5, which shows state ranks in acreage/area used to produce a large variety of specialty crops.

Specialty Crop Policy Issues

Based on our discussion with commodity interests and reviews of recent developments in the Congress, the Specialty Crop Competitiveness Act of 2004 must constitute the point of departure for any discussion of specialty crop policy dimensions at the Federal level. This legislation has received little attention from Federal appropriators to date, but is specifically designed to address issues confronting the US specialty crops sectors. A focal point of the legislation is block grants intended to fund state-based initiatives to grow and sustain specialty crop production. In addition, the legislation calls for additional Federal support for agronomic research and methods for dealing with invasive species.

Figure 6. <u>If you agree</u> that Federal support for specialty crops is warranted, rank the importance of these programs from high to low (N=20))

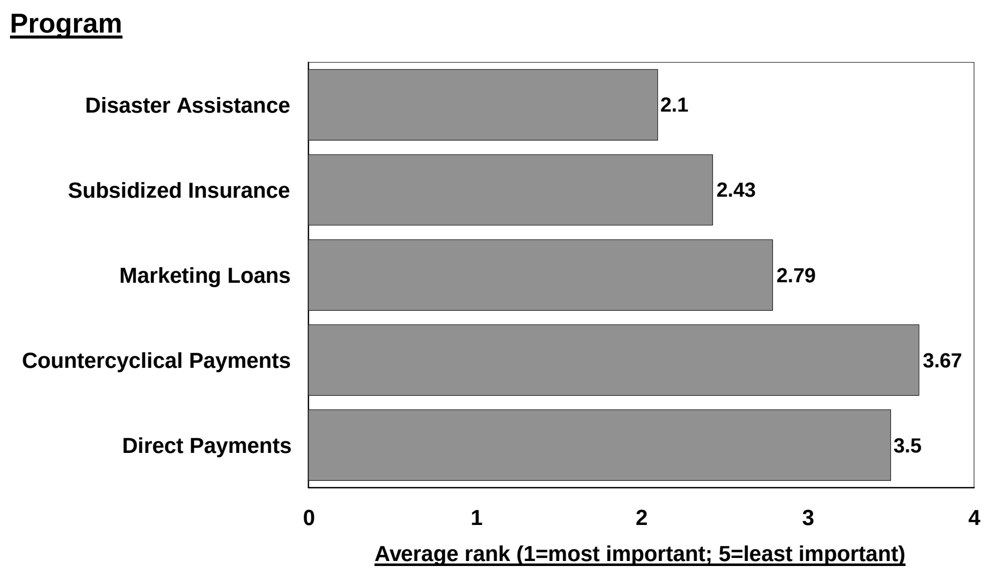


Figure 7. The 2007 Farm Bill may need to <u>reduce or reallocate</u> federal funding for current farm programs. Please indicate how important you feel it is to keep funding for the following programs at or above current levels (N=37):

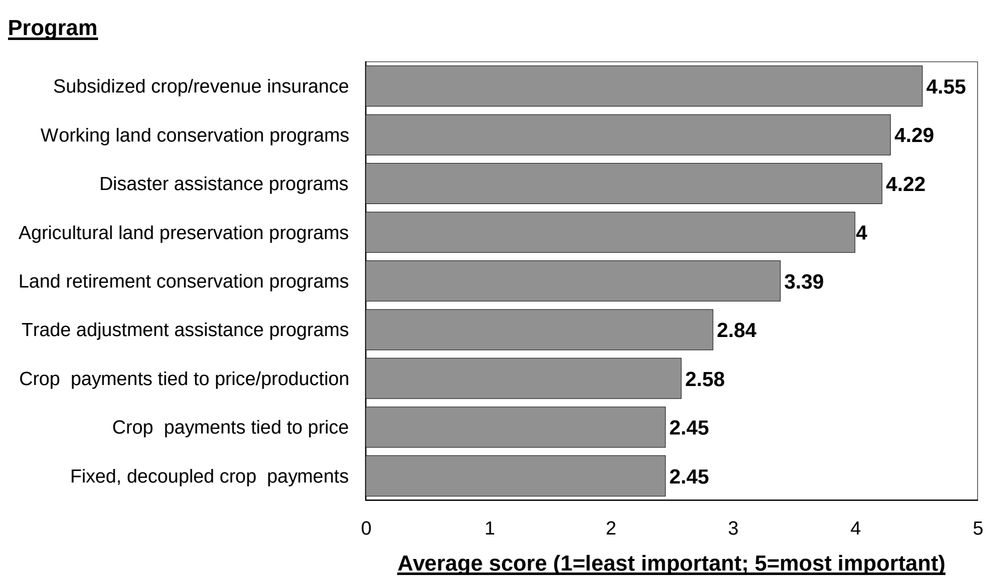


Figure 8. The 2007 Farm Bill may support new programs with new or reallocated federal funding. Please indicate how important you feel it is to provide new or reallocated funds for the following programs (N=37):

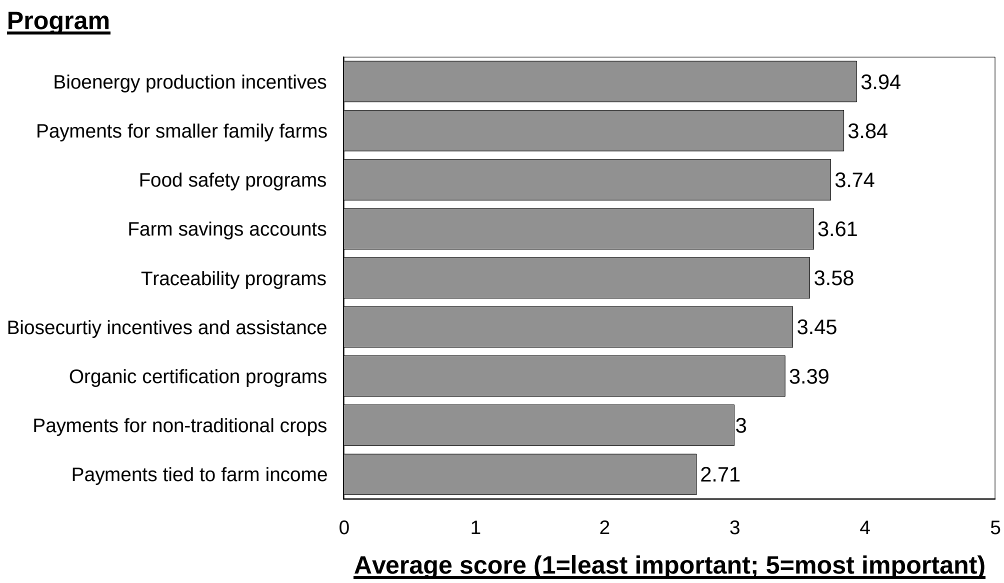


Figure 9. If federal funding for risk management programs is increased, which approaches are most preferred? Please indicate how important you feel it is to support the following alternatives (N=37):

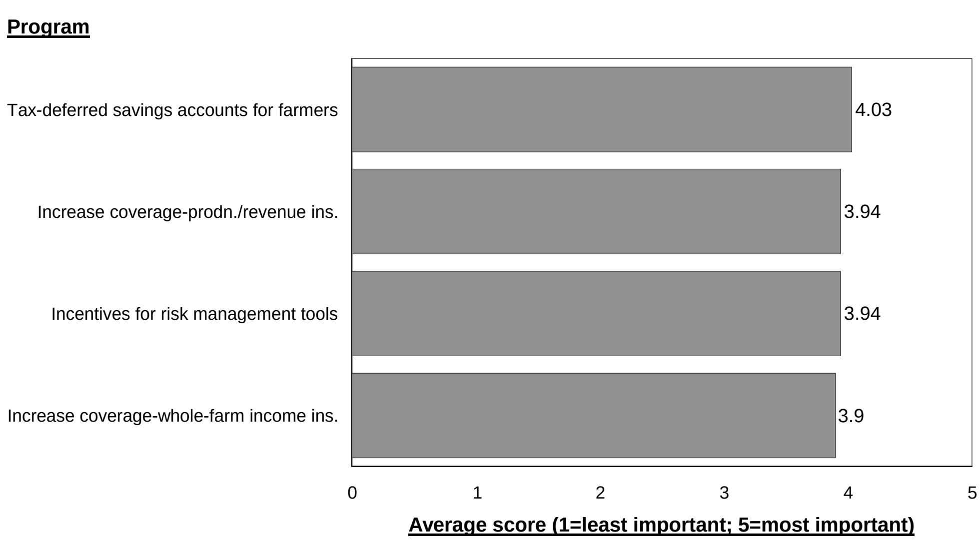
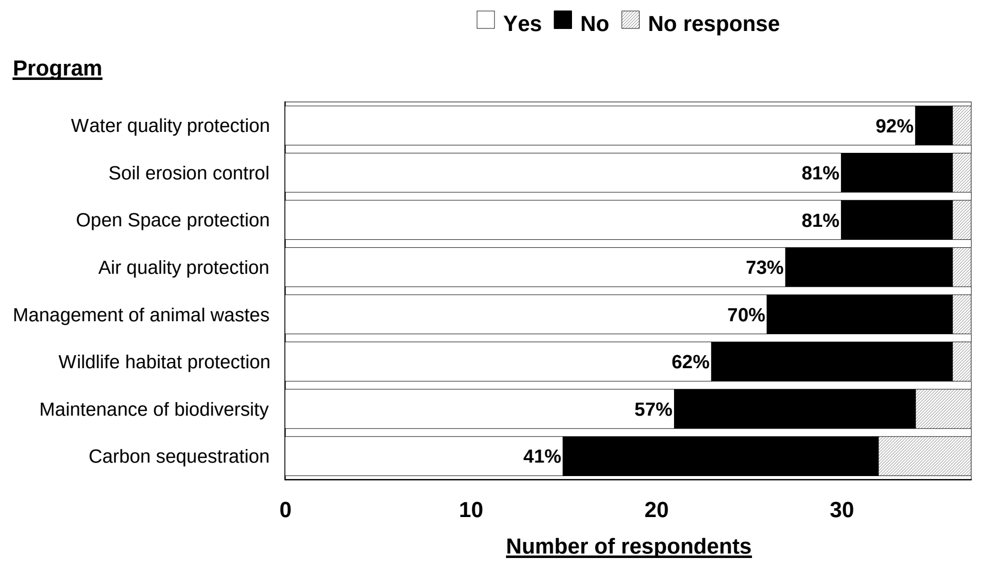


Figure 10. <u>Considering the following environmental goals</u>, should federal conservation programs be modified to increase benefits for landowners in the Northeast states (N=37)?



Our listening sessions elicited strong support for a fully funded Specialty Crop Competitiveness Act. To that end, it is somewhat likely that the emerging debate over the 2007 farm bill will engage on program elements embedded in this Act. To gain a broader perspective on the farm bill and its relation to specialty crop production, however, we administered a survey questionnaire that, at the outset, asked each respondent indicate their preferences for more direct Treasury support for specialty crop industries. Among 37 respondents, 20 indicated a preference for considering direct financial support for specialty crops while the remaining 17 respondents did not support direct Federal support involvement in specialty crop production. In the discussion that follows, we first characterize the rankings assigned by those who indicated a preference for considering direct financial support for specialty crops. Then, we move on to opinions expressed by all 37 respondents.

For respondents answering affirmatively, we asked for a ranking of program options. Options offered to each respondent were direct payments, countercyclical payments, marketing loans, subsidized insurance, and disaster assistance. Average ranks growers for these broad policy options are shown in Figure 6. Respondents registered a clear preference for programs oriented towards crop insurance and disaster assistance. The highest rank was afforded disaster assistance. Marketing loans were ranked third, followed by the possibility of countercyclical payments--direct payments to specialty crop growers that would mimic current Federal policy under the Farm Bill commodity title. These results were generally echoed in our listening sessions. Several participants in the sessions were generally opposed to or at least expressed strong reservations about a farm bill design that would incorporate specialty crop production into a more traditional commodity support régime experienced in years past for Federal "program crops".

Summary of Farm Bill Preferences

In general, while preoccupied with Federal farm legislation, our listening sessions had a relatively broader focus. Participants clearly recognized that a number of issues that are significant for specialty crop growers eclipse the Farm Bill and must be dealt with be dealt with under separate Federal legislative and/or regulatory initiatives. An important example was Federal policy regarding immigration, agricultural labor availability and access to farmworkers. These matters are only dealt with peripherally under Federal Farm Bill legislation and require separate legislative and regulatory initiatives, not the least being attempts at immigration reform. Numerous trade issues of considerable importance to specialty crop producers are also beyond the direct purview of Federal farm legislation and instead, must be dealt with in the context of bilateral or multi-lateral trade agreements. The same might be true to some extent for Federal insurance programs pertinent to specialty commodities.

Across-the-board, there is broad based concern about the sustainability of Federal outlays to support the US farm industry. Continual discussion in the popular press, agency circles, and in the academic community has taken its toll. Survey respondents and participants in our listening group sessions were asked to address the prospects for reduced or reallocated Federal funding (Figure 7). Weakest support for program maintenance fell in the categories of direct financial assistance traditionally enjoyed by producers of Federal program crops: fixed decoupled crop payments, crop payments tied to price, and crop payments tied to price and production level. Relatively more support was registered for trade adjustment assistance programs and categories of Federal conservation programming. For the latter, this includes land retirement programs as embodied in the Conservation Reserve Program (CRP), Wetlands Reserve Program (WRP), and the Grassland Reserve Program (GRP). Noticeably more support was in evidence for Federal conservation programs for working lands-- the Environmental Quality Improvement Program (EQIP), wildlife habitat improvement program (WHIP), and the fledgling Conservation Security Program (CSP) along with agricultural land preservation programs.

Listening group sessions clearly reinforced these tendencies for the region but amplified on the implications for policy. Namely, growers and their supporters clearly recognize the tension between more public support for crop or income insurance, on the one hand, and the clamor for disaster assistance from communities of growers who resist participation in subsidized insurance program efforts on the other.

Despite pessimism over the trajectory of Federal funding for American agriculture and pending trade disputes under the aegis of the World Trade Organization (WTO), survey respondents and listening group participants alike were willing to engage on the prospects and directions for new or reallocated Federal funds. Survey results are shown in Figure 8. This line of questioning afforded survey respondents another opportunity to register their concern over direct financial assistance to growers of specialty crops via crop payments tied to price/production or to levels of farm income. Very limited interest in these initiatives was detectable in the context of prospects for new or reallocated funding. Stronger support was registered for a suite of new initiatives that could include incentive payments for biotechnology production, payments tailored to smaller family farms, food safety programs, and farmer-owned, tax deferred savings accounts.

Not surprisingly, considering strong support for Federal intervention to subsidize insurance and indemnify growers in times of natural disaster, respondents to our survey showed substantial interest in a variety of possibilities for increased Federal funding for risk management programs (see Figure 9). Based on the survey responses, it is not possible to dramatically discriminate between risk management policy options. Respondents slightly favored increased tax deferred savings accounts over increased spending for higher coverage levels and subsides for crop and revenue insurance. One listening session held with crop insurance agents and other agribusiness personnel made strong arguments for improvements in Adjusted Gross Revenue (AGR) and AGR-Lite crop insurance. AGR-Lite is generally considered to be an insurance policy that is well adapted to diverse cropping farms, especially direct marketing operations, with small acreages of many different crops. In these situations, which are characteristic of a large number of farms in the Northeast, traditional crop insurance policies either are not available for many of the crops grown, or do not work well for specialty crops in the eyes of producers.

The specialty crop community in the Northeast is highly attuned to issues related to environmental management and agriculture. Along with long-lived efforts to control soil erosion and improve water quality, the Northeast states were early adopter of programs to encourage farmland retention. State farmland retention policies in the Northeast date to the 1950s. The general sense from our survey and listening sessions is that the USDA has an acceptable suite of conservation programs but that more could be done to tailor these programs to concerns and specialty crop needs in the12 Northeast states. Such concerns are borne out by the record in some cases. For example, the flagship USDA conservation program-- the CRP-- has not proved to be attractive to landowners in the Northeast; only nominal amounts of highly erodible land and have been enrolled in the CRP. Interest has been substantially higher for a variety of working lands conservation programs, including EQIP, WHIP, and the more recent pilot implementation of the Conservation Security Program (CSP) but, again, progress has on relatively slow in the Northeast. The Northeast has only one pilot watersheds CRP enrollment at this point, for example. EQIP, on the other hand, targets several critical Northeast conservation issues-- water quality in particular-- but is oversubscribed. Concerns were also expressed about some of the administrative and regulatory details programs, which, in some cases, appear to disadvantage specialty crop growers. Examples included program participation strictures based on amounts of impervious surfaces (affecting eligibility of greenhouse operators for federal farmland protection funding).

Our listening sessions devoted considerable attention to conservation matters and uncovered significant interest and concern. Responses to our survey of growers organization's are reported in Figure 10. More than 8 of every 10 respondents voiced support for the modification of Federal conservation programs to increase benefits for water quality protection, soil erosion control, and open space protection. Noticeable support it is also present efforts to deal with air quality and management of livestock wastes.

Implications and Conclusions for Policy Options

Our research (both the survey and the listening sessions) led to the following conclusions about farm policy that is supported by and for specialty crop interests:

- Specialty Crops interests are not generally in favor of traditional program crop instruments (e.g. price supports, regulated prices, loan rates, deficiency payments, countercyclical payments, etc.).
- Specialty Crops interests are generally strongly in favor of subsidized revenue insurance policies (e.g. AGR and AGR-Lite) or alternatives such as subsidized counter cyclical, tax deferred savings accounts. A slight preference was expressed for tax deferred counter cyclical payments over higher subsidies or higher coverage levels for crop and revenue insurance.
- There are mixed results regarding disaster assistance. Specialty Crops interests see the need for a continuation of disaster assistance (according to the results of our survey). Others take the view that disaster assistance is ad hoc, making it difficult for producers to make rational business planning decisions about risk management.
- There is generally strong support for conservation type programs that are better tailored for Specialty Crops resource situations.
- There was considerable support for new initiatives that could include incentive payments for bioenergy

production, payments tailored to smaller family farms, food safety programs, and farmer-owned, tax deferred savings accounts.

One of the most important issues that federal farm policy might address for the Northeast is the competitiveness of specialty crops. A thriving specialty crops sector addresses many problems and rural-urban fringe issues including land and water allocation, a viable agriculture in the Northeast, and preservation of open space in suburban areas and around the major metropolitan centers. From past research (Brooks and Heimlich), we know that specialty crops thrive in metro areas, in contrast to traditional crops and concentrated dairy and livestock operations. Development to support a growing suburban population competes for agriculture in the land and labor markets. Land prices are bid up, causing property taxes to increase. These pressures force farm operators to seek enterprises and markets that offer higher net returns. Higher land values and increased equity support increased investment to take advantages of the opportunities for high valued crops that can be sold through specialized market niches or directly to consumers. Direct marketing operations increasingly cater to agri-tourism.

There are some negatives for farmers, of course, such as a reduced farm labor supply, especially at relatively low wage levels, but there are also increased employment opportunities for both the farm family as well as for employees in value added enterprises. While there are nuisance problems (e. g. pesticide drift) they are not as severe as those associated with concentrated dairy and livestock operations. It is not surprising that farms in metro areas nation-wide produce more than two-thirds of the farm sales in fruit and vegetables and more than three-fourths of nursery and greenhouse sales

Appendix A- Mail Questionnaire

2007 Farm Bill: Policy Options and Consequences for Northeast Specialty Crop Industries

Please take a few minutes to complete this questionnaire and return it in the enclosed postage-paid envelope. Thank you!

1. Name: ______________________________

   Title: ____

   Mailing Address: ____

   ____

   Telephone: __________________

   Email address: _______________

2. You are (please circle <u>ALL</u> that apply):

   1 Executive Director or Chairperson
   2. Member, Board of Directors
   3 Elected/appointed public official
   4 Farmer/producer
   5. Agribusiness
   6. Local or state agency employee
   7. Other *(Please specify.)*
   ____

3. In general, should the government fund programs that provide income support for specialty crop agricultural producers?

   Yes ___

   No ____

4. If the answer to Question 3 is Yes, what should the programs be? Please rank the following from 1=most to 5=least important, using each ranking only once.

	<u>Rank</u>
Direct payments	_________
Countercyclical payments	__________
Marketing loans	__________
Subsidized insurance	__________
Disaster assistance	__________

5. The 2007 Farm Bill may need to reduce or reallocate Federal funding for current farm programs. Please indicate how important you feel it is to keep funding for the following programs at or above current levels. (Circle one: 1 = least important, 2 = less important, 3 = not sure, 4 = important, 5 = most important)

Fixed, decoupled crop commodity payments (direct payments)	**1 2 3 4 5**
Crop commodity payments tied to price (counter-cyclical payments)	**1 2 3 4 5**
Crop commodity payments tied to price and production (commodity loans, LDPs, etc.)	**1 2 3 4 5**
Land retirement conservation programs (CRP, WRP)	**1 2 3 4 5**
Working land conservation programs (EQIP, WHIP, CSP, etc.)	**1 2 3 4 5**
Agricultural land and grassland preservation programs (FRPP, GRP)	**1 2 3 4 5**
Subsidized insurance, including crop and revenue insurance	**1 2 3 4 5**
Disaster assistance programs	**1 2 3 4 5**
Trade adjustment assistance programs	**1 2 3 4 5**

6. The 2007 Farm Bill may support new programs with new or reallocated Federal funding. Please indicate how important you feel it is to provide new or reallocated funds for the following programs. (Circle one: 1 = least important, 2 = less important, 3 = not sure, 4 = important, 5 = most important)

Commodity payments tied directly to farm income (support payments tied to farm income level)	**1 2 3 4 5**
Commodity payments for non-traditional program commodities (fruits, vegetables, nursery crops, livestock, wood products, etc.)	**1 2 3 4 5**
Commodity payments targeted to smaller Family farms	**1 2 3 4 5**
Farm savings accounts	**1 2 3 4 5**
Bioenergy production incentives	**1 2 3 4 5**
Biosecurity incentives and assistance	**1 2 3 4 5**
Food safety programs and assistance	**1 2 3 4 5**
Traceability programs (identity preservation, animal identification, etc.)	**1 2 3 4 5**
Organic certification programs........	**1 2 3 4 5**

7. If Federal funding for risk management programs is increased, which approaches are most preferred? Please indicate how important you feel it is to support the following alternatives. (Circle one: 1 = least important, 2 = less important, 3 = not sure, 4 = important, 5 = most important)

Increase coverage, protection levels, and premium subsidies for crop production and revenue insurance (APH, RA, IP, CRC, etc.)	**1 2 3 4 5**
Increase coverage, protection levels, and premium subsidies for whole-farm or ranch income insurance (AGR, AGR-Lite)	**1 2 3 4 5**
Establish tax-deferred savings accounts for farmers, providing for withdrawals in low-income years or at retirement	**1 2 3 4 5**
Provide incentive payments for using various risk management tools, including hedging, Insurance, savings accounts, and education	**1 2 3 4 5**

8. Considering the following environmental goals, should Federal conservation programs be modified to increase benefits for landowners in the Northeast states?

Water quality protection	**____ Yes**	**____ No**
Soil erosion control	**____ Yes**	**____ No**
Air quality protection	**____ Yes**	**____ No**
Wildlife habitat protection	**____ Yes**	**____ No**
Open space protection	**____ Yes**	**____ No**
Management of animal wastes	**____ Yes**	**____ No**
Carbon sequestration	**____ Yes**	**____ No**
Maintenance of biodiversity	**____ Yes**	**____ No**

9. What policies and programs not mentioned above do you think would help maintain or improve the economic prospects for specialty crop production in the Northeast states?

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Appendix B-Listening Session Notes (Myers Advisory Council)

N. Bills, 10-20-05

A synopsis of comments received in Myers Council listening session
on specialty crops and the 2007 Farm Bill

October 19, 2005

Presently, as in years past, Federal farm legislation has been tailored to the needs of a few welfare crops. It is unseemly to consider adding specialty crops to this list; specialty crop reducers do not want government welfare. Specialty crop producers are not looking for direct government assistance or handouts. Instead they prefer to be in the position of criticizing other welfare recipients.

As the 2002 farm bill was implemented, specialty crop producers learned several important lessons about the policy scene in Washington. At the outset, many specialty crop producers thought they were in "good shape" with provisions established and programs authorized. There was excitement about conservation options available to specialty crop producers, for example, along with opportunities for marketing and export assistance. But, many of these opportunities evaporated or were greatly diminished by the Congressional appropriators as time wore on.

Conservation concerns in the specialty crop community have centered on water quality. Conservation measures that afford protection for surface water bodies-- including land management in riparian zones along creek banks and streams are useful but have been hampered by too little attention from the Congressional appropriators.

Conservation set-aside programs-- the flagship being the Conservation Reserve Program-- do not interest specialty crop producers. Specialty crop growers occupy and utilize New York's best land; they are in no mood to retire this well-qualified acreage. You give marginal land to the government set-aside programs and keep the good stuff for moneymaking.

Specialty crop producers (this is a Western New York grower speaking, reflecting the ambivalence we see around farmland protection programs statewide) are not interested in purchase of development rights programs. Growers in Western New York wince when they hear about development rights sales on Long Island in $20-$30000 per acre range, and wonder about the propriety of such program action.

On the other hand, it is important for policy to deal with the churning we see in local land markets and the entry of individuals with limited or uncertain farm production interests (this coming from a large farm operator in the Capital District in eastern New York).

There's room for great concern with policy proposals for direct aid to specialty crop producers based on a "me too" argument and little more. Bringing this discussion to the table wearing such cheap cloth is repugnant. Proposals to include specialty crops on the list of preferred crops for direct support has no merit (but, responding to counter questions, this respondent indicated that his squeamishness about opening the Federal treasury to specialty crop growers did not extend to indirect support such as subsidized crop insurance, conservation subsidies, and the like. It's that frontal assault on the treasury that, again, riles the righteous).

While direct support is not-- should not be-- in play as a policy option, specialty crop producers need access to a variety of creative program efforts that would center on bio-security concerns, food safety, accommodation of efforts to assure traceability of consumer group food products, and the like. We need to deal very directly with the concerns today's consumer has about produce and food products derived from specialty crop production in the Region. More Federal money is warranted here.

Indeed, as others have mentioned, it is foolish to imagine that specialty crop producers might want to start down that road of direct government support. It is "not working now so why would others want to try it?" But there are many areas that provide viable entry points for Federal policy: new improved and possibly extended risk management tools are one area that offers many possibilities, along with expanded research and development efforts and more focused programs to expand specialty crop markets and marketing opportunities.

Programs focusing on the family farm or the small farm strike a very responsive public policy cord. Politicians like to posture themselves around these matters and the public at large carries a reservoir of goodwill centered on the imagery of small farms and hard working families embedded in farm commodity production business. However, since the small farmers often carry out agriculture on a very limited scale, often garnering as little as $10,000 in farm receipts -- they are not really involved in agriculture. Granted, they take up a lot of space…………..

One graphic example of the small farm mentality was provisions in the 2002 farm bill for dairy. Direct cash payments to dairymen were capped, meaning that larger farms got less Federal support.

Despite the political tractability of small farm programming, these programs are deficient. They delay the pain that comes from continual need for structural adjustment in a dynamic industry like agriculture; they distort production and consumption decisions by propping up prices.

When will we finally pull the plug on Federal disaster assistance? Continual access to ad hoc disaster appropriations undermines the risk management and insurance programs that we all want to operate effectively and to the advantage of the taxpayer.

Programs with high political sex appeal going forward will be those focusing on biofuels an alternate energy sources.

Crop insurance, on the other hand, is a vital instrument but is not a very sexy subject. And, administering crop insurance is very hard work. When pressed for more comments and answers on risk management and insurance, the Council members generally indicated a preference for more programs focused on perils associated with revenue or farm income, rather than perils centered on the production of any one crop. This argument extended to the quality dimension and the variety of market outlets (hence different prices) that specialty crop growers generally contend with, especially fruit and vegetables, make the insurance program less workable compared to grain and other program crops. Also, we have a large number of relatively small-acreage specialty crops, which makes it more difficult for insurance agents and adjustors to deal with loss assessment than it is for the major crops. The administrative nightmare, all considered, they think, lives here with a program centered on individual crops.

An overriding redeeming feature of insurance models centered on revenue is that perils associated with price changes are "covered".

Going forward, there are probably opportunities to work with entirely novel insurance models. Consider weather-based models for instance.

It shouldn't be all about crop insurance or insurance models in general. The idea of tax-deferred savings accounts makes a lot of sense. We hate to admit it or even talk about it, but many farmers make an awful lot of money. More experimentation with incentives to get farmers in closer association with savings accounts of various sorts has a lot policy merit. A very favorable side effect associated with programs of this sort is the opportunity to be creative with policy and impart a greater sense of entrepreneurship and management in the industry. All of this of course, one thinks, ultimately leading to better and more timely decisions on growing a business.

Appendix C-Listening Session Notes (NASDA)

Jerry White and Nelson Bills: 28 October, 2005

Summary
Conference call with NEASDA representatives

24 October 2007

Which if, any new or modified provisions for specialty crops would likely to fall in the amber, blue, or green boxes as WTO deliberations move forward? Any new initiatives must be attentive to trade concerns.

The Cornell project comes on the heels of the Specialty Crops Competitiveness Act of 2004. How do the Cornell folks see their project relating to this Act, which deserves attention but has received limited appropriations from the Congress? Listening session results in Pennsylvania with a bearing on that legislation will be made available to the Cornell project investigators.

What is a specialty crop? The 2004 Specialty Crops Competitiveness Act of 2004 defined specialty crops to include fruits and vegetables, tree nuts, dried fruits, and nursery crops (including floriculture). The Cornell project's list, is arbitrary, but includes a more expansive crops list: fruit, vegetables, floriculture, nursery, turf, maple syrup, Christmas trees, aquaculture, honey, and mushrooms.

Cornell has initiated contacts with 75 organizations across the Northeast that have interests in these aforementioned crops. Results from this outreach survey are being tabulated now and will be circulated to this conference call group, probably within the next 10 days.

Representatives from Pennsylvania and Delaware referenced listening sessions either recently concluded our soon-to-be wrapped up. We would be very interested in summaries of those discussions.

Delaware: listening sessions indicate little interest in direct subsidy for specialty crop producers that might parallel payments received by producers of program crops; in contrast, the response was very positive regarding marketing, research and development support from the USDA.

The menu of program options is extensive. The hard part is figuring out which program to choose and how to mix and match the program options. Many growers express general support for specialty crops but also clearly recognize the obstacles in the current political and fiscal environment in Washington, DC.

Vermont: we can teach farmers how to fish or we can give them fish. That is, Vermont growers also are not likely to be looking for direct financial support. However, specialty crop growers do want marketing and other support to improve the economic viability of their businesses.

It was mentioned that the most NE states had their own marketing/branding programs (for example, Pride of NY) and there needs to be a good deal more regional collaboration. These programs are competing with those from the other states... It is possible that individual Northeast states might be able to multiply their efforts by going after consumers with an integrated regional approach. Consider the Walmart example with the apple brand "Eastern Apples" with 50 grower-suppliers—an example that might be emphasized in a regional collaboration in marketing.

There was sentiment expressed for transitional help for growers going organic, with lowered incentive payments through time. Moving from traditional crop production to organics involves a huge risk and substantial sacrifices in income in the near term. Direct financial assistance might be warranted because of that three-year transitional period when you cannot get price premiums nor can you be certified organic. Direct Federal assistance could help when "the grower's banker is not happy with his/her conversion to organic" by compensating for the higher risk and the learning curve involved in moving to organic production.

Supply chain incentives, such as help for implementing food safety and traceability programs, were endorsed. Support for "soft" approaches such as incentives for R&D and educational efforts were mainly supported rather than outright grants for equipment or buildings. Tax incentives, somewhere in the middle between the extremes of education/R&D and grants for equipment & buildings, were generally supported.

There was general support for crop insurance subsidies for revenue insurance (AGR and AGR-Lite), but also for individual crop policies. AGR-Lite appears to be an answer for some specialty crop growers; these subsidies were supported for the larger specialty crops (apples, grapes, etc.). An observation was that many insurance providers find the revenue policies too complicated to administer and to explain to producers. "Private insurance carriers are not good on delivery of whole farm policies".

Another concern is the lengthy approval process for new insurance products from RMA. We need a way to fast track insurance options and tools.

Individual crops insurance models are attractive from an administrative standpoint. Tracking yields and exposure to risk are easier to figure out for a single commodity. Conversely, as noted above, insurance agents are really challenged with the broader whole farm insurance products, especially when a variety of specialty crops are in play.

Effective demand for these products on the part of specialty crop producers is there if we can iron out the administrative issues associated with marketing and servicing the coverage.

A DEL representative mentioned that individual crop coverage was the preferred type of policy there, because of the importance of large acreage grain crops. However the cost of production for specialty crops, relatively high crop values, and the high risk assumed by growers demonstrates the need for insurance products for these crops.

VT noted resistance from small farm operators, especially in the case of specialty crop producers, to buying crop insurance. Part of the issue is clearly premium costs. If a direct marketer is small and produces many crops, he or she has to evaluate many policies in order to buy regular crop insurance, and some crops won't have any coverage. That is the theoretical advantage of AGR and AGR-Lite; many crops, one policy (that includes coverage for reduced output prices). That is also the theoretical advantage for insurance carriers, who might save time when explaining and administering one policy instead of individual crop policies for small acreages of several crops. Nevertheless, the observation that "private insurance carriers are not good on delivery of whole farm policies" remains valid. Relatively few companies have made the effort to sell and service these revenue products in the Northeast.

Increased liability limits to $1 million dollars (a change in policy limits put into place for 2006) will increase the acceptability of AGR-Lite.

Farm savings accounts were recognized as having general appeal. A program like this can be closely attuned to market conditions and often strikes a responsive chord with growers; but the devil would, as usual, be in the details. A good deal of education might be needed to roll a program like that out. Growers of program crops might be interested in banking their counter cyclical payment and other payments in good crop years. There is a definite need for farmers to put something into savings accounts, whether for a bad year or retirement. Tax considerations and accounting practices can be a critical element in the design and administration of such accounts. Careful attention will need to be given to those matters.

On alternative energy, support for (1) research (2) tax credits for investments and (3) direct subsidy to offset costs were suggested. VT noted that the benefits seem to be accruing mostly to the largest farmers. An example offered is funding for manure management on Vermont dairy farms. Farmers need access to the information and research that is viable for small to moderate size farming operations. The next step would be direct financial assistance (note that? the context here is nutrient management on dairy farms).

Expenditure to implement biosecurity is an emerging issue. Farmers are wary of the costs they are likely going to incur as they attempt to hit biosecurity milestones; the main discussion so far has been around dairy. Who will pay the substantial costs of meeting the requirements? Can these programs be privatized and if so, who will pay? However, growers and producers recognize that these programs will be part of their business going forward. The discussion has moved from what kind of programs would be implemented to a debate about who would pay for implementation.

An emergent issue that has received too little attention so far deals with ownership of the data and intelligence that would accrue around privatizing biosecurity and traceability programs. Consider livestock: what more accurate marketing tool could be available if one knows the number of livestock, their age, their location and so on?

On the produce side there is also some movement forward with regard to traceability. Our larger producers (in New York State) are already doing something. Consider cabbage. Consider onions. The expenses are not insurmountable but they are very noticeable. It would be helpful if Federal assistance was available to help underwrite them.

Smaller growers: depends on their marketing channel. In general, they are much more reliant upon their relationships with their consumers. Their consumers know them and they want to have direct acquaintance with the grower. Many small growers are now self-identified in markets.

Food safety also involves the states in data gathering, so that if a pattern of problems or incidents emerges, action can be taken. Pennsylvania is putting a great deal of effort into data management and systems that streamline their food safety monitoring processes. A lot of emphasis is on food manufacturing. Again, Federal assistance would be very helpful in overcoming the costs of these efforts and programs.

Bioenergy also was supported as an enterprise that needs support in the Farm Bill. Research is needed to develop the integrated processes needed to capitalize on biomass as an energy source. Cellulose based feedstocks represent a major opportunity for the Northeast. The technology needs to be teased out. Incentive payments are needed to encourage farmers and other landowners to shift to that kind of enterprise and develop the necessary marketsheds. Growers probably won't be owning the production facilities needed to provide a ready outlet for cellulose material produced on the farm, whether by planting dedicated energy crops or harvesting grass crops.

The farm bill can help bridge the gap between cellulose based energy sources and mandates for substituting for petroleum. The Northeast has many of the necessary conditions in place to make these projects go; this includes climate, ample supplies of marginal land and ready nearby markets for energy products.

Consideration ought to be given to Federal matching funds for farm savings accounts. Federal dollars on a 1:1 ratio or, even better, a two for one match on dollars would really sweeten the pot and get broader participation in the farm community. Appropriate tax treatment, especially for growers who do business on a cash and often prepay basis, would also spur interest in the farm community.

Traceability: would be supported if it has a specific market advantage. A value added advantage? But part of this is market access. Our competitors are capable of tracing apples back to the row, if not the tree. Consider Chile. So we may be going there whether we want to go or to preserve our place at the marketing table. Federal assistance through grants and other financial incentives would be welcome. Actual cost exposure depends on the industry involved.

Appendix D-Listening Session Notes (New York State Farm Bureau)

Jerry White and Nelson Bills, 12-5-05

NOTES from Listening session with Farm Bureau, 17 Nov. 05

Present:

Bob Hokanson
John Tauzel
George Lamont
Jerry White
Nelson Bills
Brent Gloy
Wen-Fei Uva

- There are concerns with the idea that government funds should be used for direct support to specialty crop producers. One key consideration in the current policy environment is the WTO and concern about price distorting Federal support policies; direct support for specialty crop producers may be an amber box problem going forward. They liked the idea of subsidized crop insurance and higher coverage levels for specialty crop growers.
- The Competitiveness Act for Specialty Crops should be funded. This legislation has provisions that the specialty crop growers need. Last thing in the conference call, Geo. Lamont made a strong case for more research dollars for specialty crops. These research dollars could flow in quantity under this legislation.
- Conservation Security Program (CSP) is favored. This program can easily be tailored to the needs of specialty crop producers; consider provisions for integrated pest management and supplying funds needed for pesticide management facilities. However, exacting USDA construction standards can confound the process. For example, construction of a pesticide loading station that proceeds under USDA standards for dispensing EQIP cost-share dollars can cost MORE dollars out of the producer's pocket compared to doing the project without government cost-sharing funds.
- Also need regulations that can be useable and available to fruit and vegetable growers—an example is the administrative features of the CSP. Some Erie Co. vegetable growers couldn't participate in the CSP because of inappropriate standards established by the USDA on soil loss tolerances and application of a soil conditioning index. These programs need to reward good stewardship. Need to get specialty crop growers to the table, rather than see them out-muscled by dairy. It was noted that specialty crop growers have better access to Federal conservation dollars in WI and MI compared to NY.
- The CSP has the program direction needed. It is a program designed to reward and enhance conservation stewardship on farms where managers are committed to proper conservation management... Too often, government dollars go to cleaning up somebody else's lax conservation behavior.
- Disaster Assistance still has a role. Will never get perfect crop insurance programs, so we need disaster assistance to fill in the gaps. But even with disaster assistance, growers in counties where there is not a concentration of farms for a

commodity (e.g. apples in Broome Co.) may get left out.

- As a part of disaster assistance, low interest loans are not favored. When confronted with crops losses, growers are often not well positioned to take on additional loan liabilities.
- Unfortunately, politics can play a role in disaster assistance as well. Sometimes political considerations work to the advantage of specialty crop producers and sometimes they do not. But ideally, disaster assistance would have little or nothing to do with which Congressional District a specialty crop farmer is located in.
- Market Assistance Promotion (MAP) was left out of our list of programs. This program has considerable merit for specialty crops and specialty crop growers and should be included in 2007 farm bill deliberations...
- Re Farmland Protection, writing effective easements is a challenge. The USDA has a tendency to over regulate here and states are often confronted with difficulties in matching states dollars to Federal dollars for farmland protection. A preferred policy direction with Federal money is block grants to the states, with latitude given to state program administrators on scope and direction of easement administration.
- Another problem with farmland protection regulations at the Federal level are restrictions on amount of impervious surface on affected parcels; this restriction can negatively impact effective easement development for specialty crop producers. Consider greenhouses and facilities for farm markets. This has been a big issue for areas where greenhouses are numerous--Suffolk County is the best NY example--impervious surface restrictions hamper or don’t allow access to the Federal program dollars. Opportunities to leverage local dollars for easements are being missed in this case.
- The Farm Bureau works to promote programs that do not, by design, differentiate growers and producers based on farm size. Therefore, commodity payments targeted to certain farmers, whether large or small, are out of step with NYS Farm Bureau policy. No support for 1st and 2nd bullets under Q 3, (direct commodity payments) either.
- Tax deferred farm savings accounts got a lot of support. Just having tax deferment makes it interesting. Matching Federal dollars would be the icing on the cake! (When pressed to express preference for one over the other, George seemed to prefer tax deferment. Other idea: in a break-even year, the government could kick in some dollars.
- RE: Bioenergy. Incentives for using bio-diesel fuels make sense. However, production of biodiesel feedstocks in New York State offers limited opportunity for specialty crop growers. They do not grow these crops-- this would largely be a question of growing oil crops such as soybeans. Incentives for greater energy efficiency in greenhouses would be of considerable interest to that industry as well.
- Maybe other dedicated energy crops could be a possibility. For example, willow production might favor nursery enterprises in NY.
- Bio-security issues to apply to some specialty crop growers, although at present, the main concern is in the livestock sectors. Some floriculture producers have needed to destroy stock without indemnification. Going forward, growers will want to see more emphasis on indemnification as security issues develop.
- The same applies in the realm of food safety. Growers would like to see financial assistance for meeting more exacting food safety standards
- Growers would like to see incentive payments for participation in food safety audits required by supermarket chains. One confounding factor at

present as that individual supermarket chains want to apply their own standards. This lack of uniformity in standards is very costly and time-consuming for growers who are targeting this market channel. Growers would like to see Federal intervention to encourage supermarkets decide on and apply a uniform food safety protocol.

- Support for dollars for compliance really applies up and down the line: for biosecurity, food safety, and traceability. Specialty crop producers often have a large financial stake in each of these policy considerations and warrant the public support needed to ensure compliance.
- Organic certification needs to be included as well. Growers are incurring costs as they convert to organics and financial support would be useful.
- An emergent concern is definitions of organic. As larger producers begin entering this market (we are seeing this with fluid milk production at present), there's agitation to blur distinctions between organic and nonorganic production practices. Organic production is more costly but realizes a price premium for product. So, there is a natural tendency to try to cut corners on production methods while retaining the organic designation. This means that certification must be closely monitored.
- RE: Q 4, Specialty crops growers realize that traditional crop insurance policies do not work well for them, and they would like to see increased subsidies. Higher coverage levels need to be subsidized more relative to lower coverage levels, which get a higher percentage of subsidy at present. See Fm Bur wish list for RM/CI. (We have been supplied with the New York State Farm Bureau materials to accurately determine their policy position).
- On AGR, would like to see same income items used to calculate five yr. adjusted gross revenue history—as is used in revenue to count when calculating a claim loss.
- Need a Specialty Crops title for the 2007 farm bill. Furthermore, the Congress needs to not only authorize programs. The legislation also needs to be funded!

Summary of main points made by panelists at the 26 October New York Crop Insurance Workshop in Syracuse, NY.

Compiled by Jerry White, 7 December 2005

Panelists were as follows:

AGR/AGR-Lite: An On-the-Ground Assessment

Roundtable Moderator *Jerry White, Cornell University-Professor (Leader of the Department of Applied Economics and Management's Crop Insurance Education Program)*

Rick Chandler, Massachusetts Department of Agricultural Resources (farm business planning and land use specialist and a co-operator with the MA Crop Insurance Education Program)

Alison De Marree, Cornell Cooperative Extension (Area Extension Educator with the Lake Ontario Fruit Team and a cooperator on Cornell's Crop Insurance Education Program)z

Jeremy Forrett, Northeast Senior Marketing Agent, Crop Growers Insurance Services

Charles Koines, Crop Insurance Consultant

1) Each panelist presented a success story from the field where having AGR/AGR-Lite made a real difference to a farm.

<u>Chandler</u>

All of us know of a few situations where people had crop insurance at the right moment in time. For AGR, this occurred in my area when the bottom fell out of cranberries, when blue mold came in and damaged tobacco, and basically anytime that the income drop is sufficient to trigger a large payment regardless of the buy up levels. However, I prefer the story of a farmer who has had both APH and AGR insurance every year for a number of years. He is content when, within a 5year period, he covers enough claims that the return from crop insurance pays the premiums for that same 5 years. In other words, he has "free" protection against the big problem by buying enough coverage to collect small amounts on the lesser failures over the years. No miracles– just smart and conservative thinking.

<u>Koines</u>

The success story I used was the case study that was included in the workshop binder. The 5 year base period had income increases of 250% and decreases of 60% from one year to another. The farm did not qualify for indexing. The intended income was 42% of the approved income. Despite these conditions, the farm suffered a financial loss during the insured year and was able to receive a loss payment.

<u>Forrett</u>

A producer with a 600 acre diversified vegetable operation attended meetings regarding AGR. He decided that he could mitigate his risks of weather and market fluctuation through insurance with AGR. The first year that he chose the coverage we experienced an extremely wet spring. This delayed his planting schedule and pushed him out his marketing season, in which he usually marketed early and captured the higher market prices by doing so.

By the time his crop matured, he was competing in a depressed market. Canada did not have the delayed start that NY had and were hitting the market in high volume with produce. This loss of market reduced this revenue by 30% and was enough to trigger a loss payment. This producer understood his risk exposure, looked at the weather and market trends of the last 10 years and determined that the revenue based program fit his needs much better than a production based program.

2) Each panelist presented their ideas about how best to target producers for sales of policies or educational programs. To which farm types/commodity groups should we direct our efforts in order to increase participation?

<u>Chandler</u>

Clearly we need to target small to medium diversified farms, especially those with a livestock (in its broadest definition) component. That said, we need to show the product works and addresses the changing needs of such farms. We hear that other crop insurance products work pretty well for traditional farms, but it is truly the underserved that need AGR. By creating one simple and flexible AGR product (combining the best aspects of AGR and AGR-Lite), we should be able to sell a lot of it. Right now, it costs too much and it is too confusing a product to promote to the types of folks who might best buy it. Fix that, and the target group will flock to the door.

Koines

We should focus on producers of multiple crops are not using crop insurance and producers of crop that receive higher than average prices. This would include producers of organic crops, specialty crops and direct marketers.

Forrett

Looking at the AGR-Lite changes that the FCIC Board
approved this summer:
-Increased liability to $1 million
-Moved the sales closing to March 15 (details
provided shortly)

These changes open up (expand) the target audience. In addition,

- The 2004 fall marketing season for our direct market/retail/U-pick operations was one of the best in recent years. However, the 2005 fall marketing season for our direct market/retail/u-pick operations was one of the worst in recent years. One insured direct marketer shared his budget numbers for the Columbus weekend with me. He planned for $90,000 in sales, ordered inputs for this amount of projected sales, and after the weekend wrapped up, actual sales were $12,000. The last two weekends in October were no better.

The need is there and the loss of revenue is real. We should send postcards to the direct market/retail/u-pick operations reminding them that this type of coverage (AGR/AGR-Lite) protection is available. The iron is hot!

DeMarree

For our educational programs, we need to incorporate crop insurance information at general educational meetings held throughout the year, such as the fruit and vegetable expo. Growers need constant reminders, and it is getting harder to get them out for meetings just about crop insurance.

In terms of target audiences, fruit and vegetable growers both fresh and processing remain the main target audiences.

3) Each panelist suggested barriers to participation. Why aren't more AGR/AGR-Lite policies being sold?

Chandler

The cost of AGR needs to be subsidized more. Follow through on the early commitment to transfer disaster payment funds to AGR (and other crop insurance) subsidies.

The reputation of crop insurance is not helped by stories of denied claims, technical disqualifiers, too broad promises, etc. Have something clear to sell. Be absolutely certain to list exactly what is covered. Don't emphasize the exceptions, say what is covered. Give examples of both successful and denied claims and explain why. This product is too confusing as it now stands, and leaves too much to the discretion and interpretation of agents and adjusters.

Make the deadline dates workable for farming realities.

Really cover animals; address quarantine and damage without mortality. These are common causes of loss of income. Do not pass the buck to unknown programs you think might cover this if AGR doesn't. AGR is a REVENUE policy. If your revenue is down through no fault of your own, you should be covered. PERIOD.

Address the inequity in not counting crop insurance payments as income against averages.

Find a way to include farmers with less than 5-6 years of tax records/experience, both qualified new farmers and older farmers making significant changes in their operations.

Koines

We need to provide coverage for new producers who have not been in business for 5+ years.

Forrett

The main barrier is that not enough agents understand the program. The AGR/AGR-Lite program is tax form based and most agents do not have enough experience working with this program. We need to put emphasis in educating the agents on the ins and outs of the program. Educating agents should be completed jointly with RMA and the insurance companies.

DeMarree

Low profitability (or no profitability) is the main barrier. This year for fruit, the crop is down for many growers and the price for processing fruit is also down (due to small fruit size). There is no money to pay crop insurance premiums after paying for increased labor costs and higher energy bills (fuel for machinery and getting in the crop, heating bills for labor camps, delivery costs for getting the crop to the packing house or to market, etc). Growers are under a lot of pressure to try to reduce expenditures, and crop insurance premiums are one expense that gets singled out when there is not enough revenue to cover costs.

4) **Each panelist presented one program change that they would most like to see implemented with AGR/AGR-Lite to make the policy more attractive to producers.**

Chandler

Simplify the policy and the adjustment practices.

Make farmers with less than 5-6 but more than two years experience eligible.

Stop responding to all criticisms and suggestions by saying "Kansas City doesn't like it, so we give up".

Make justified and well considered changes within ONE YEAR of realizing they would make a difference.

Have one well done AGR policy and make it affordable without too many qualifying levels. (Refers to the existence of both AGR and AGR-Lite, with differences such as sales closing dates and maximum policy liabilities, and other minor differences).

Koines

We need to include income from crop insurance payments in the base period for calculation of the AGR.

Forrett

Multi-Peril Crop Insurance proceeds either need to be counted as allowable revenue in the history and at loss time, or not counted in the history and at loss time. How these proceeds are handled when working with the program determines whether or not producers continue the coverage after experiencing a loss which results in an indemnity.

DeMarree

Have larger subsidies. Also, treat crop insurance payments in the revenue history the same as they are treated for revenue to count at the time of a claim.

Also, the purchase of MPCI (for AGR, not AGR-Lite) has to be taken in situations where a crop is produced that accounts for over 50 percent of a producer's total revenue. (This is the case for many fruit growers for which apple receipts account for a major part of their incomes.) Since the decision about which policies to take is interdependent, the closing date for perennials is too early; growers haven't had enough time after harvest to give serious consideration to which policy or policies to take, and at what coverage levels. A sales closing date of 20 December for perennial crops and 15 March for AGR would allow growers more time to analyze their crop insurance needs and make a better decision about policies and coverage level to take.