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**Questions and Answers
On The
Administration's 1990 Farm Bill Proposal**

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Overview:

The 1990 Farm Bill Proposal

OVERVIEW: THE 1990 FARM BILL PROPOSAL

QUESTION: What are the major themes of the Administration's 1990 Farm Bill proposal?

ANSWER: The basic themes of our farm bill proposal are increasing market orientation, improving international competitiveness, and addressing environmental concerns. This proposal emphasizes production flexibility to allow farmers to respond more readily to market forces in making their production and marketing decisions. U.S. agriculture must be able to respond to new opportunities in domestic and world markets if it is to grow and prosper in the 1990s. U.S. agriculture will be strengthened by the Administration's proposals in price and income supports, international programs, crop disaster assistance, food and consumer services, farm credit, science and education, marketing and inspection services, and other areas.

While the Administration's proposal highlights a competitive U.S. agriculture, it responds to the Nation's concern for the environment and the conservation of our land and water resources. The Administration's proposal enhances the resource stewardship of American farmers through greater production flexibility, incentives to change resource use in environmentally-sensitive areas, and further research and technical assistance.

The proposals for increased production and marketing flexibility, aggressive export assistance programs, and increased research will strengthen our GATT negotiating leverage by emphasizing our resolve to compete in the global market. The Administration's proposal recognizes that there are limits on Federal spending for agriculture, as in other budget areas, and calls for the Administration and the Congress to work together to develop farm legislation which helps meet deficit-reduction targets.

QUESTION: How does the USDA farm bill proposal build on the Food Security Act of 1985?

ANSWER: The 1985 Act was successful in many ways. Market-oriented price support levels and strengthened export programs to combat unfair trade practices helped recapture our share of world markets. The 1985 Act improved our ability to compete and placed pressure on competitors to negotiate trade reform. The 1985 Act successfully protected farmers during this transition to greater market orientation. Farm income reached record levels as farmers expanded production to meet rising demand abroad. The 1985 Act also made great strides in protecting the environment by the establishment of the Conservation Reserve Program (CRP), and the implementation of swampbuster, sodbuster, and conservation compliance provisions.

Our proposal builds on these successes, while recognizing that some further adjustments are needed. A key adjustment is greater production flexibility, which will allow farmers to plant based on market signals without loss of farm program benefits. This change offers farmers the opportunity to reduce production expenses, improve the environment, and increase their global competitive position. This competitiveness will be further strengthened by continuation of export assistance programs.

Our proposal also builds on the conservation provisions of the 1985 Act by addressing additional areas that need to be covered, including protection of surface and groundwater from agricultural chemicals, wetlands, and land idled under annual acreage reduction programs. Further, we propose expanded investment in research and education on many areas of concern, including agricultural productivity and sustainability, water quality, and food safety.

QUESTION: How does the USDA farm bill proposal relate to the Uruguay Round of agricultural trade negotiations under the General Agreement on Tariffs and Trade (GATT)?

ANSWER: The 1990 Farm Bill should be completed this summer before winter wheat producers plant their 1991 crop. Uruguay Round negotiations are scheduled for conclusion in December, four years after they began. These are significant parallel events, but the U.S. farm bill will be written in Washington, not Geneva. When the Uruguay Round is complete, we will submit to Congress whatever implementing language may be necessary.

Our farm bill proposal builds on the Food Security Act of 1985 and would continue to move U.S. agriculture in the direction of greater market orientation. A key theme of our farm bill proposal is increased competitiveness of U.S. agriculture in world agricultural markets achieved through increased flexibility, continued export programs, and enhanced research efforts. Our proposal sends a clear and unquestionable signal to our trading partners that the United States is committed to fully and aggressively participate in export markets in the short and long runs.

The U.S. comprehensive proposal for long-term multilateral agricultural trade reform submitted in the GATT is designed to guide world agricultural trade and production toward a market-oriented system. We propose reform to improve market access, to substantially and progressively reduce trade-distorting subsidies, and to base health and sanitary regulations on sound scientific evidence. The reforms called for in the U.S. GATT proposal would permit countries to maintain income support and other programs for farmers that do not distort trade. These reforms would be achieved over several years.

Chapter I

Price and Income Supports

I. PRICE AND INCOME SUPPORTS

QUESTION: The USDA 1990 Farm Bill proposal contains recommendations on planting flexibility. Could you outline briefly USDA's flexibility proposal?

ANSWER: USDA's comprehensive proposal to enhance planting flexibility provides for a number of important modifications to current programs. The idea is to allow a farmer to plant a variety of crops on permitted base acreage without losing program payments or reducing the historical program bases associated with the farm. The proposal also addresses planting flexibility on what would otherwise be idled acres. Special provisions allow conserving crop plantings and production of experimental or industrial crops. A key concept in the proposal is the Normal Crop Acreage (NCA), defined in the proposal as the sum of acreage in all program crop bases plus historical plantings of specified oilseeds. In the proposal there is also the discretion for the Secretary to allow producers to plant up to 105 percent of the crop base if additional production is needed to provide adequate supplies.

QUESTION: Besides allowing producers more freedom to plant, are there other benefits from USDA's planting flexibility proposal?

ANSWER: There are economic, trade, environmental, and other benefits associated with flexibility. Making income support payments based on historic plantings, rather than current plantings, would reduce the influence of income support programs on farmers' planting decisions. This flexible approach to planting will increase market-orientation and competitiveness while still providing farm income support. When market conditions indicate that farmers could profit by producing more of a particular commodity than they now produce, they could do so without fear of losing base acreage and income support payments. Farmer planting flexibility would result in a more efficient agriculture, thus increasing national income and promoting competitiveness.

There are also environmental benefits to production flexibility because there would be movements to more natural systems of fertilization through increased production of legumes, such as soybeans. For example, fewer chemicals, such as nitrogen fertilizer, would be applied if there is a shift from corn to soybean plantings.

QUESTION: What effects will USDA's flexibility proposal have on U.S. farmers and crop acreage?

ANSWER: Initially, acreages of soybeans, wheat, and cotton are likely to increase under the USDA production flexibility proposal while feed grain acreages

are likely to decrease. But ultimately the question can only be answered by farmers. What they actually decide to do will depend on their own situations and the market conditions that evolve.

Under current policy, specific crop acreage bases generally determine plantings of the different program crops and, indirectly, nonprogram crops. Under the USDA flexibility proposal, producers will plant according to market signals. This assures that farmers will be growing crops in response to market demand, rather than farm programs.

QUESTION: The Normal Crop Acreage (NCA) program didn't work in the past, so why does USDA think it will work now?

ANSWER: The NCA programs, as used in 1978 and 1979, differ from our proposal. Under those programs, the planted acreage of a program crop was used to determine deficiency payments so long as the sum of the farmer's total plantings and set-aside did not exceed the NCA for the farm. The link between payments and planted acreage encouraged farmers to plant based upon the target prices for the commodities. This was a key flaw in the old NCA programs.

Under the USDA flexibility proposal, deficiency payments will be based on the historical plantings of crops, rather than future plantings. In addition, farmers who participate in commodity programs cannot increase their program crop base. Market prices will play a much greater role in crop planting decisions under the USDA flexibility proposal than under the earlier NCA programs.

QUESTION: The 1990 wheat program is an example of flexibility. Is this USDA's flexibility proposal?

ANSWER: Planting flexibility on acreage reduction program (ARP) acres is only part of the USDA proposal. In 1990, wheat producers who are participating in the wheat program are being offered the opportunity to plant on land required to be idled under the 5 percent ARP announced for the 1990 wheat crop. For each ARP acre which is planted, the producer will forego deficiency payments on an acre for acre bases. This option allows additional acreage to be planted to wheat if producers conclude that market returns justify the additional plantings. The USDA flexibility proposal addresses both reduced acres and permitted acres by allowing farmers to make planting decisions on both types of acreage.

QUESTION: Why does USDA propose to permit production of soybeans, sunflowers and rapeseed (including canola) on program acreage and still allow deficiency payments to be earned?

ANSWER: The production of soybeans, sunflowers and rapeseed can be an important part of a crop rotation practice. Past programs have greatly inhibited a producer's ability to maintain a proper rotation on the farm for disease control, and for other environmentally sound reasons. As a result, we believe it would be appropriate to include the designated oilseeds as a part of NCA of the farm. Extending program payments without regard to actual plantings further enables a producer to plant according to market signals rather than government-determined incentives and will increase our competitiveness in the world market place.

QUESTION: Will the USDA flexibility proposal solve the "soybean problem"?

ANSWER: The "soybean problem" generally refers to the declining world share of U.S. trade in soybeans and soybean products. Since 1970, the U.S. share of world soybean trade, including products, has fallen from 81 to 35 percent. This decline accelerated during the 1980's as U.S. soybean acreage fell sharply and foreign oilseed production rose to record highs.

More flexible commodity programs will allow U.S. soybean production to be more responsive to world price changes and marketing opportunities. When the price of soybeans changes in relation to other crops, competing South American producers will no longer be able to count on U.S. soybean production being constrained by the acreage reduction programs for wheat, feed grains, cotton and rice. More responsive U.S. production would create a more competitive market facing other exporters, which should discourage expansion in foreign soybean acreage over the longer term.

QUESTION: Will USDA's flexibility proposal reduce farm program outlays?

ANSWER: There should be a net budget savings based upon the USDA flexibility proposal, but the exact savings are uncertain. By broadening farmers' cropping choices, production flexibility has the potential to reduce farm program outlays. There would be savings if producers switch from "target price" crops with high payment rates to crops with high market prices and small or no payment rates. There could also be some reduction in payment acreage if producers choose to plant program crops or alternative crops on the acreage required to be diverted from production. However, if program participation increases, so could budget exposure.

QUESTION: How can USDA's flexibility option be proposed without a proposal on target prices?

ANSWER: Because of budget constraints, target prices that are high in relation to market prices are the prime cause of inflexibility under the current commodity programs. To receive payments under the current programs, producers generally are required to plant only the program crop on their crop acreage base for that crop. In addition, in order to control budget outlays, producers are required to idle a portion of that crop's base in order to receive deficiency payments.

Under the USDA's flexibility proposal, "payment acres" will not be increased if the producer plants more of a program crop nor reduced if the producer plants less of the crop. Because payment acres would be fixed, farmers can have planting flexibility without increasing budget outlays.

QUESTION: Why has USDA not offered specific proposals on target prices?

ANSWER: Target prices, support levels, payment rates, program yields, acreage bases, payment limitations, and a host of other agricultural policy tools work together and have a combined effect on the policy and budgetary outcome of farm legislation. Therefore, target prices can't be looked at in isolation from other policy tools. We will work step by step with Congress in achieving policy and budgetary objectives.

QUESTION: How will cotton and rice producers be affected by the proposed changes in the price support programs?

ANSWER: The USDA's proposal would allow price support rates for upland cotton and rice to better reflect world market prices. The current loan rate policies for these two commodities -- especially statutory minimum loan rates -- have resulted in a heavy reliance on the loan program, thereby resulting in market distortions that have reduced competitiveness.

Statutory minimum loan rates for cotton and rice have resulted in high loan rates for these commodities in comparison to the loan rates for wheat and feed grains, which have no statutory minimum. The proposed changes would treat program crops equally. Marketing loans would continue for upland cotton and rice but would not be used as often once the statutory minimum loan rate is eliminated. The incomes of cotton and rice producers will continue to be protected against reductions in loan rates through increased deficiency payments.

QUESTION: Why is the minimum price support rate for soybeans maintained?

ANSWER: The current soybean program constitutes an income safety net that should be maintained. Maintaining the soybean price support rate at the minimum of \$4.50 per bushel will allow soybeans to be competitive in world markets, while at the same time providing soybean producers with price and income protection. Wheat, feed grain, cotton and rice producers receive income support through target prices and, therefore, are protected when price support rates are reduced. The soybean program has no provision for target prices; the soybean price support rate serves the dual role of price and income support.

QUESTION: Does the one-year Farmer-Owned Reserve (FOR) contract in the USDA proposal weaken the ability of the U.S. to hold stocks to meet future world food needs?

ANSWER: The USDA proposal is actually a multiple year program similar to the current program except that the grain reserve would be re-evaluated every year through the use of annual contracts rather than the current three-year contracts. The present FOR has evolved into such a confusing set of rules and regulations that it has become questionable whether it serves the purposes for which it was established. Commodities have been held in reserve under multi-year contracts when they should have been made available to meet market demands. Market participants have had to speculate on USDA decisions concerning release of stocks, entry of commodities, and other FOR determinations.

In addition, the need for reserve stocks is lessened by the USDA's flexibility proposal which would encourage a much quicker production response to commodities which are in tight supply. Finally, as an additional safeguard, we propose an extension of the replenishment authority for the Food Security Wheat Reserve (FSWR).

QUESTION: The dairy price support formula contained in the Food Security Act of 1985 has helped reduce dairy surpluses and budget outlays. Why propose a change in the formula?

ANSWER: We are proposing that the basic dairy price support formula be continued. However, the current formula limits the Secretary's authority to take expected market conditions into account when establishing the support price. Support prices that are out of line with market conditions result in large Commodity Credit Corporation (CCC) outlays, burdensome stocks, and can lead to disruptive programs, (e.g. the dairy herd termination program).

Our proposal for a range of price support adjustments and purchase level triggers gives the Secretary more flexibility to consider changing market conditions when establishing support prices.

QUESTION: Why is USDA proposing to change the peanut program since budget outlays for this program are small?

ANSWER: We believe that all programs should be market responsive. Therefore, we propose to adjust the peanut price support rate to be more reflective of market conditions. We also propose to allow for the unrestricted sale and lease of peanut quotas so that more opportunities exist for all producers who wish to grow peanuts.

QUESTION: USDA proposes to change the honey price support program to an income support program. Why?

ANSWER: USDA proposes to simplify the operation of the program, save budget outlays, and still protect farm income at current levels. Under the current program, close to 90 percent of U.S. honey production is placed under loan with the Federal government. This occurs almost solely for the purpose of acquiring benefits under the honey marketing loan program. The proposal will not reduce producer income but will direct honey to the market, not to the government; and, therefore, save several million dollars annually in administrative expenses.

QUESTION: USDA proposes to convert the wool and mohair production incentive program to an income support program using target prices and deficiency payments. Why is this change so important?

ANSWER: The wool and mohair program is unique because it is the only program that was actually intended to encourage surplus production. This may sound odd today, but was considered reasonable decades ago when natural fibers were needed for military purposes. However, the production incentive aspects of the program have been largely ineffective. This occurs primarily because wool production is determined by the demand for sheep meat. Such demand has declined over the past few decades, leading to a decline in sheep numbers and wool production.

In addition, the production incentive program was intended to promote high quality wool and mohair production. This means the more a farmer receives from the sale of wool or mohair, the greater his payments from taxpayers. Thus, government payments increase as prices, based primarily on quality, increase.

Converting to a target price system will stop the ever-increasing support levels for wool and mohair and will change the program from a production incentive program to an income support program.

QUESTION: Don't wool import customs receipts exceed the cost of the wool and mohair program and, if so, why should taxpayers care about the design of the program?

ANSWER: Customs receipts from wool do not flow to the USDA; they go to the U.S. Department of the Treasury and are used to carry out the general operations of the Federal government. The issue is not how the program is funded (i.e., customs receipts or annual appropriations from Congress); rather, it is trying to design a program that is consistent with current policy objectives.

QUESTION: What is the Administration's position on the sugar price support program?

ANSWER: Since the authority for the current sugar price support program expires with the Food Security Act of 1985, the program will either have to be extended or modified. The Administration will work closely with Congress to determine the appropriate option in 1990. In addition, changes in the price support program will likely have to be considered after the conclusion of the Uruguay Round of Trade Negotiations under the General Agreement on Tariffs and Trade (GATT).

QUESTION: The USDA proposal does not address maximum payment limitation requirements. Does this mean payment limitation concerns are resolved? What is USDA going to do about large payments to individual producers?

ANSWER: Payment limitation requirements are overwhelmingly complex and have been addressed many times in prior legislation. Most recently, budget reconciliation legislation enacted at the end of 1987 tightened the requirements for payment eligibility and resulted in a reduction of payments to some individual producers. These new requirements have just been applied to 1989 crops. The evidence is not yet in on the effectiveness of these new requirements. However, there continues to be concern about large payments to individuals or business entities. Because of equity and budget concerns, Congress may wish to address this issue further in the 1990 Farm Bill.

Chapter II

Conservation and Environment

II. CONSERVATION AND ENVIRONMENT

QUESTION: Why is USDA proposing to change the focus of the Conservation Reserve Program (CRP)?

ANSWER: Almost 34 million acres of primarily highly erodible cropland is already enrolled in the CRP. Therefore, this program has been successful because farmers are decreasing erosion substantially on this enrolled land. The new USDA proposal is intended to focus the balance of the CRP on other environmental concerns.

The Nation's rural residents are increasingly concerned about the safety of their drinking water. The proposed modifications to the CRP would allow cropland in critical municipal wellhead areas to be enrolled in the program. Targeting enrollment to these areas will help minimize drinking water contamination. Water quality concerns also would be addressed through the USDA proposal to enroll filterstrips, grass waterways, and cropland areas that convey dangerous runoff into surface and ground water.

Wetland protection and restoration are also priority issues. The USDA proposal would offer opportunities for producers to give permanent easements for wetlands.

QUESTION: Does it make sense to pay some farmers to restore wetlands at the same time other farmers are draining theirs?

ANSWER: The swampbuster provision of current law, which we recommend be continued, withholds program benefits from farmers who drain wetlands to grow program crops. At the same time, some previously converted wetlands are characterized by low returns and could be restored to wetland status without requiring large government expenditures. The combination of swampbuster and a restoration program will go a long way to providing a comprehensive and equitable approach to wetland protection.

QUESTION: Will the Conservation Reserve Program (CRP) acreage return to crop production when the contract period expires?

ANSWER: This decision will be made by individual farmers. However, in order to encourage retention of CRP acreage in conserving uses, USDA proposes to protect a producer's base history beyond the contract period for as long as the land is maintained in a protective grass or tree cover. Without this base protection, producers could have an incentive to return the CRP land to crops simply to protect their future ability to receive government payments.

QUESTION: What does the USDA proposal do to encourage sustainable agriculture?

ANSWER: Changes in both the commodity programs and our research efforts will help eliminate disincentives to the adoption of sustainable production systems. Farm program benefits are currently based on a farmer's production of program commodities. A farmer who uses certain sustainable agricultural production practices may lose program benefits under current provisions. USDA's flexibility proposal would permit farmers to adopt certain rotation practices without loss of program benefits.

QUESTION: How do USDA's conservation proposals improve the environmental benefits from acreage retired under annual commodity price and income support programs?

ANSWER: The USDA proposals would improve the environmental benefits from annually retired acreage in two ways. First, annual program participants would be required to plant 50 percent of their acreage reduction requirement to a cover crop, not to exceed 5 percent of the crop acreage base. USDA would provide cost-share assistance for establishing a perennial cover. No haying or grazing of this perennial cover would be permitted prior to July 1. The cover crop requirement would not apply to land for which such cover does not constitute sound farm management practices. Second, annually retired acreage that is highly erodible will be subject to the conservation compliance provisions of the Food Security Act of 1985.

Chapter III

International Programs

III. International Programs

QUESTION: The USDA proposal recommends that the Export Enhancement Program (EEP) be continued. Has the EEP been effective?

ANSWER: The EEP encourages the export of U.S. agricultural commodities in targeted markets by making the prices of such commodities competitive with the subsidized exports of other countries. EEP has increased U.S. farm product exports, challenged the unfair trade practices of competitors, and pressured trading partners to seriously negotiate to reduce trade barriers and trade-distorting subsidies which hurt U.S. farmers. Through the end of fiscal year 1989, bonuses were made available under the EEP which facilitated the sale of \$8.5 billion of agricultural products to 65 countries.

The EEP is an integral part of the U.S. trade policy strategy for achieving success in the Uruguay Round of agricultural trade negotiations under the GATT. The program has put substantial pressure on the European Community (EC) by making it more difficult and costly to operate their export subsidy programs and has strengthened the U.S. negotiating position. The EEP program should be reassessed after the conclusion of the Uruguay Round.

QUESTION: Why is USDA supporting a continuation of the Targeted Export Assistance (TEA) program in the 1990 Farm Bill?

ANSWER: The TEA program has enhanced agricultural exports by promoting U.S. agricultural goods in foreign markets, particularly processed and high-value products. The USDA proposal includes an authorization for a maximum funding level of \$200 million annually for the TEA program.

QUESTION: Have the Export Credit Guarantee programs been effective?

ANSWER: Yes, the Export Credit Guarantee Programs have helped to stimulate U.S. exports by assuring the availability of financing to foreign purchasers of U.S. agricultural commodities. The programs operate where credit is necessary to maintain and increase U.S. exports to a foreign market and where private financial institutions would be reluctant to provide financing without a guarantee from the government. In fiscal year 1989, 26 different country programs were announced, with total registered sales of approximately \$5.3 billion.

QUESTION: USDA proposes maintaining the authority for the Food Security Wheat Reserve (FSWR). Why? How has it been used?

ANSWER: When the FSWR was established in 1989, 4 million metric tons of wheat were placed in the reserve to provide urgent humanitarian relief when supplies were tight. Of the 4 million tons, up to 300,000 tons is authorized to be used as needed in emergency situations when supplies cannot be made available under normal procedures.

The first use was to help meet the famine needs of Africa in the mid-1980's, when 300,000 tons were released from the Reserve in response to an emergency need. In this context, the Reserve met an urgent food need when all P.L. 480 funds had been committed and additional funding could not be made available in time to meet the emergency.

The Reserve has also been used twice to assure continuity of U. S. food aid under P.L. 480, first in fiscal year 1989 and again this fiscal year. Up to 3.5 million tons (1.5 million tons in 1989 and up to 2 million tons in 1990) have been released by the President from the Reserve in response to a limited availability of wheat for P.L. 480 programming.

QUESTION: Has the Administration made a decision on its recommendations for P.L. 480?

ANSWER: The Administration is in the process of reviewing changes that could result in improved food aid authorities. Our proposals will be submitted in the near future.

Among the major issues being reviewed are the need to be more responsive to recipients' financial problems as well as their need for the timely arrival of agricultural commodities. A second area of major concern is how to best focus P.L. 480 on significant developmental benefits and how local currency proceeds can best be used to attain such benefits in recipient countries. Additional ways to promote private sector growth in the recipient countries are also being reviewed.

QUESTION: How has USDA used the Food for Progress authority?

ANSWER: Under this authority agricultural commodities may be made available to developing countries which agree to introduce or expand free enterprise elements in their agricultural economies. This authority provides that not more than 500,000 metric tons of commodities may be furnished under the program in any fiscal year.

The USDA has used this authority in both African and Latin American countries, as well as more recently in Poland. The authority has been extremely useful in both meeting food needs quickly and in supporting private enterprise development in recipient countries. The only difficulty thus far has been the fact that demand for the program seems to be exceeding the 500,000 metric ton ceiling established by Congress.

QUESTION: Why is USDA proposing that the Dairy Export Incentive Program (DEIP) not be extended in the 1990 Farm Bill?

ANSWER: Section 153 of the Food Security Act of 1985 mandated this export program. This is an export subsidy program for dairy products which duplicates existing CCC authority. Due to the nature of international trade in dairy products, there have been very limited opportunities to use the DEIP.

QUESTION: Why is USDA not proposing to extend reauthorization for the mandated barter provisions of the Food Security Act of 1985?

ANSWER: These provisions have been almost impossible to administer and therefore have been ineffective. There are two separate provisions of the 1985 Act dealing with barter. One directs the Secretary of Agriculture to make \$300 million of Commodity Credit Corporation (CCC)-owned commodities available annually to the Secretary of Energy to barter for crude oil for the U. S. Strategic Petroleum Reserve. The second provision requires the Secretary of Agriculture to conduct pilot barter programs with two countries, exchanging CCC-owned commodities for strategic materials acquired by the U. S. Government agencies.

Considerable time and staff effort have been expended in seeking to consummate barter arrangements, but without success. CCC has other existing barter authority which can be used to enter into any barter opportunities which may arise.

Chapter IV

Crop Disaster Assistance Program

IV. CROP DISASTER ASSISTANCE PROGRAM

QUESTION: The President's fiscal year 1991 budget proposes elimination of the federal crop insurance program. How will this effect farmers who have been using this program?

ANSWER: The proposal would replace federal crop insurance with a standing disaster assistance program that would protect farmers against catastrophic crop losses. Private insurers may develop companion policies that provide protection not covered by the proposed crop disaster assistance program. Moreover, the program would provide assistance to those producers who have not participated in the federal crop insurance program in the past. The existing federal crop insurance program has proven costly and low participation in the program has resulted in ad hoc disaster assistance legislation.

QUESTION: How would USDA's proposed standing disaster program work?

ANSWER: Under this program, farmers would be eligible for disaster assistance payments if the average yield in their county is less than 65 percent of its historical yield on an individual crop basis. A farmer in an eligible county would receive payments for any yield shortfalls below 60 percent of the normal county yield. The payment rate will be based on a 3-year average of the market price for the crop. All crops for which federal crop insurance is currently available, plus hay and forage, would be covered by this plan. Producers would be subject to a \$100,000 payment limitation and would not qualify for payments if their gross annual income exceeded \$2 million.

QUESTION: In the USDA proposal, producers who suffer large crop losses are ineligible for payment if in that year their county's yield exceeds 65 percent of normal or if their own low yields are still above 60 percent of the county average yield in eligible counties. In these situations, what protection would be available?

ANSWER: The proposed disaster program will provide farmers with a safety net of protection in the event of widespread crop loss. Most yield shortfalls due to adverse weather such as drought are generally widespread and would be covered by the proposed program. It is not intended to provide the same degree of individual protection as offered by crop insurance. However, many individual disasters, such as hail or fire, are covered by privately-offered crop insurance. The proposed disaster program would provide an umbrella under which private industry can design a multi-peril program for individual producers without government interference.

Chapter V

Food and Consumer Services

V. FOOD AND CONSUMER SERVICES

QUESTION: How does the USDA proposal deal with the food assistance programs that are so important to needy Americans?

ANSWER: Food assistance programs are vital to the nutritional well-being of low-income Americans. USDA proposes reauthorization of the Food Stamp Program (FSP), the Temporary Emergency Food Assistance Program (TEFAP), the Commodity Supplemental Food Program (CSFP) and the Food Distribution Program on Indian Reservations (FDPIR). These programs, along with the Child Nutrition and Women, Infants and Children (WIC) programs, which were reauthorized last year, currently account for nearly half of the USDA budget.

QUESTION: What are the reasons for the USDA decision to fund the Temporary Emergency Food Assistance Program (TEFAP)?

ANSWER: The TEFAP program reaches an important segment of the needy population that chooses not to participate in the more traditional food assistance programs such as the Food Stamp Program (FSP). USDA review of this program shows that almost 60 percent of TEFAP participants do not participate in the FSP although most are eligible. This is particularly true for elderly households, about half of whom reported that they can get along without food stamps even though they believed they were eligible. We also believe that without Federal administrative support, many local agencies would have difficulty meeting their overhead costs. Federal administrative funds help keep both public and private donations of food flowing to those who are in need.

QUESTION: Why look to the Commodity Credit Corporation (CCC) first for purchasing TEFAP commodities?

ANSWER: In deciding how to spend the \$120 million requested for TEFAP, USDA will look first at the inventories of the CCC. USDA will consider whether to purchase commodities from the CCC based on market conditions, the supplies available, appropriateness for TEFAP, and the requirements of the Hunger Prevention Act of 1988. USDA will be looking to purchase foods that are desired by emergency food organizations, are packaged for household distribution, and are high in nutrients. The variety and quality of the food that is now being provided in the program will be maintained.

QUESTION: What does USDA want included in the 1990 Farm Bill in order to combat fraud in the Food Stamp Program (FSP)?

ANSWER: The USDA FSP integrity proposal combines new technology in the form of Electronic Benefit Transfer (EBT) systems, stiffer penalties against those who abuse the program, and renewed efforts at enforcement.

In addition to strengthening traditional approaches to combating fraud, new technologies can also help reduce program abuses. EBT systems are at the forefront of a highly sophisticated and rapidly changing technology. USDA is optimistic that investment in EBT systems will lead to safer, more cost-effective benefit delivery.

A comprehensive approach to combat fraud is required since the sources of abuse range from the application process to the redemption process, and involve participants, retailers and third parties.

QUESTION: How will the USDA proposal to require food stamp participants to work with child support enforcement agencies improve families' economic well-being?

ANSWER: Helping families with children is a priority for this Administration. USDA believes that many low-income families will be better off if a proposal is enacted because too many single-parent families do not receive the support to which they are entitled.

The intention is to promote parental responsibility for children augmented by government assistance when needed. The ultimate winners will be the single mothers and their children who will receive additional support as a result of the USDA proposal. If the head of household does not comply with this provision, his or her own benefits will be subtracted from the grant, but the children will continue to be covered.

QUESTION: What is USDA currently doing to assist the homeless and what will USDA do further under this proposal?

ANSWER: Important steps have been taken to accommodate the needs of the homeless through domestic food assistance programs.

- o In fiscal year 1991, USDA plans to provide \$32 million worth of commodities to soup kitchens and other organizations providing meals to homeless people.

- o The Food Stamp Program (FSP) encourages participation by the homeless in several ways. Homeless individuals are eligible for expedited service so that they receive their benefits in five days (normally states are allowed up to 30 days). The homeless may use their food stamps to purchase prepared meals at authorized shelters and soup kitchens.
- o USDA has also taken strides to facilitate and encourage the homeless to participate in Women, Infants and Children (WIC) program. USDA is encouraging States to find and serve homeless individuals, modify the food package to make it more accessible and usable, and improve outreach activities to this segment of our population.
- o Finally, USDA is an active member of the Interagency Council on the Homeless and works closely with Council staff to improve opportunities and assistance for the homeless.

We propose to do even more. We would like to offer grants (totaling approximately \$1 million) to nonprofit groups to reach out to the homeless with information, assistance, and other services needed to help them through the food stamp application process. We also propose to allow the homeless to use food stamps at authorized soup kitchens or restaurants, giving them another -- and perhaps more useful -- outlet for their benefits.

QUESTION: How will expanded demonstration waiver authority as proposed by USDA help improve services for low-income Americans?

ANSWER: Some states have come forward with innovations for reforming the welfare system but have found they can't be as creative as they would like to be because the food stamp waiver authority is not as broad as in other programs. Expanded waiver authority would facilitate the coordination of a number of assistance programs thereby reducing the cumbersome, separate administrative processes and calculations which currently overburden the eligibility determination processes.

QUESTION: What does the USDA proposal do to ensure continued availability of funding for the Food Stamp Program (FSP)?

ANSWER: Over the years there have been occasions when continued food stamp funding has been threatened due to a need for additional appropriations or a higher authorized spending level. The USDA proposal requests an open-ended authorization for food stamp funding so that benefits for needy Americans are not threatened. Also, USDA is requesting an appropriation for fiscal year 1991 that includes a cushion in the event that current projections of program participation prove to be too low.

Finally, USDA is requesting calendar year appropriations for the program so that benefits are not interrupted in years when appropriation actions are not completed before the start of the fiscal year.

QUESTION: Why is USDA requesting a change in the administrative funding approach to the Commodity Supplemental Food Program (CSFP)?

ANSWER: Currently, CSFP administrative funding is tied to the availability of dairy products from CCC inventory. Recent fluctuations in CCC dairy product availability have created uncertainties in CSFP administrative funding. In order to stabilize funding for program operations, USDA proposes to raise the percentage of appropriated funds available for administration from 15 up to 20 percent. This change will facilitate planning because the full amount of administrative support will be known early in the program cycle.

Chapter VI
Farm Credit

VI. FARM CREDIT

QUESTION: What is the general purpose of the USDA proposal in the credit area?

ANSWER: The purpose is to return the Farmers Home Administration (FmHA) to its original mission as a lender of last resort and a provider of temporary credit to the rural communities. Over the years, FmHA's mission was overexpanded. FmHA will again concentrate on providing access to credit for a temporary period to creditworthy farmers who cannot obtain commercial loans without assistance.

QUESTION: What are the major changes in credit policy that are contained in the USDA proposal?

ANSWER: The major changes fall into four categories:

- o accelerating the shift from direct to guaranteed loans;
- o limiting the number of years of eligibility for FmHA credit programs;
- o interest assistance on guaranteed loans to facilitate the transition to private sector borrowing; and
- o closing loopholes in the Agricultural Credit Act of 1987.

Many of these changes are technical but they will improve the operation of FmHA programs and return these programs to their original purpose which will benefit the farm community. These changes will curb certain abuses in the program, return integrity to the program, and restore FmHA credibility with borrowers and taxpayers.

QUESTION: What is the benefit of the shift to guaranteed lending?

ANSWER: With FmHA guaranteed loans, the Federal Government guarantees payment to private sector banks, in the event that a producer defaults on his debt. At the time the loan is made there are no budget outlays, permitting FmHA to provide a greater number of loans within the current Federal budget constraints. In addition to the guaranteed lending program -- except for oversight -- all credit data, appraisals, underwriting, and servicing are done by the private lender. This relieves the FmHA county office staff workload. FmHA can then concentrate more on supervised credit activities for socially and economically disadvantaged farmers. (Socially disadvantaged individuals, as defined under 8(a)(5) of the Small Business Act, include blacks (not of Hispanic origin), American Indians or Alaskan Natives, Hispanics and Asians or Pacific Islanders.)

QUESTION: What are USDA's plans for accelerating the move from direct to guaranteed lending?

ANSWER: The two main approaches are through interest rate buy-downs and a process that we call "Operation Assist." The interest assistance program will buy down up to 4 percent points in the borrower's interest rate. "Operation Assist" is a process whereby FmHA county office staff prepare for a producer the guaranteed loan application and present the completed application to the lender. This greatly facilitates the guaranteed loan making process and provides for complete and accurate preparation of loan documents.

QUESTION: The USDA proposal limits eligibility for direct operating loans to 7 years. How does this differ from the existing program?

ANSWER: The existing direct operating loan program has no limit on the number of years a borrower can apply for loans from FmHA. In addition, loans can be rescheduled for up to 15 years with no limit on the number of times a borrower's loan can be rescheduled. The lack of limitations causes FmHA to be a perpetual provider of credit, not a temporary source of credit as originally intended.

QUESTION: USDA proposes that the maximum outstanding indebtedness of an FmHA direct operating loan borrower be changed from \$200,000 to \$100,000. Will this change adversely affect the ability of FmHA borrowers to receive loans?

ANSWER: No. The average direct operating loan amount obligated in fiscal year 1989 was \$41,700, while in fiscal year 1988, it was \$38,800. The \$100,000 loan limit would more than adequately fulfill the credit needs of most FmHA applicants.

QUESTION: USDA proposes that "continuation loans" be discontinued for direct operating loan program borrowers who need a loan for essential farm expenses yet are delinquent on these loans. What is the rationale for this change?

ANSWER: Under existing law, delinquent borrowers can qualify for an annual production loan even though they are unable to show repayment of all scheduled debt installments. Approving loans to individuals who are not able to pay existing indebtedness as scheduled will only further erode the borrowers' equity.

QUESTION: Is the USDA proposal to impose a 20 percent equity requirement under the guaranteed operating loan program attainable and necessary?

ANSWER: Yes, since statistics gathered during a (FmHA) Farmer Programs Coordinated Assessment Review process show that approximately 60 percent of guaranteed loan borrowers have an overall equity equal to or greater than 20 percent. The equity requirement will ensure that guaranteed operating loans are made to borrowers with at least a minimal ability to absorb financial adversity.

QUESTION: USDA proposes that direct farm ownership (FO) funds, with a ceiling of \$150,000, be limited to socially disadvantaged applicants. Will this restrict the availability of loans to creditworthy non-socially disadvantaged applicants?

ANSWER: While non-socially disadvantaged individuals no longer would be eligible for direct FO loans, USDA expects to provide ownership opportunities to these farmers through FmHA's guaranteed loan programs and through the credit sale of property in FmHA inventory.

QUESTION: Traditional commercial farm ownership loans allow 20 to 30 years for repayment. Why is USDA proposing to limit guarantees for farm ownership loans to 15 years?

ANSWER: Defaults are more likely to occur early in the terms of farm ownership loans. A 15-year period is more than adequate time to move beyond the vulnerable early years. Limiting the guarantee to 15 years provides the borrower with a credit safety net for an adequate period of time.

QUESTION: What are the loopholes in the Agricultural Credit Assistance Act with regard to FmHA that the USDA proposal will address?

ANSWER: The loopholes are: (1) potential for repeated debt write-downs for the same borrower; (2) permitting the borrower to buy out debt at net recovery levels and then sell the secured asset at market levels two or more years later, thereby reaping a profit; (3) giving bad-faith borrowers (e.g., those who improperly sell secured assets) the benefits of FmHA debt forgiveness and other preferences; (4) unlimited total amount of debt write-down to any one borrower; (5) exclusion of certain assets in determining the amount of debt forgiveness; (6) forcing FmHA to use an artificially low value when selling some inventory property; and (7) indefinite extension of write-down provisions -- even for new loans -- thereby greatly reducing a farmer's incentive to repay FmHA loans.

QUESTION: How does the merger of the FmHA secondary market for guaranteed loans with the Federal Agricultural Mortgage Corporation (Farmer Mac) facilitate the move from direct to guaranteed lending?

ANSWER: Farmers and ranchers will benefit from a combined effort through more competitive interest rates, more rapid implementation of a secondary market, and greater interest in FmHA's guaranteed program. Lenders will benefit by avoiding the inefficiencies and confusion that would result from two separate secondary markets being established simultaneously. Farmer Mac's management team is in place and can provide the expertise needed for the successful promotion and operation of the combined secondary market. Farmer Mac's educational and promotional efforts on behalf of the secondary market will lead more rural lenders to see the advantages of participating in FmHA's guaranteed lending program.

Chapter VII
Science and Education

VII. SCIENCE AND EDUCATION

QUESTION: How does the USDA 1990 Farm Bill proposal enhance the contributions of science and education to agriculture?

ANSWER: In both our 1990 Farm Bill proposal and in the President's fiscal year 1991 budget, the Administration has proposed a major new investment in research and education in agriculture, food and the environment. The competitiveness of U.S. agriculture is largely based upon the strength of our technology. Increased investment will ensure that the United States can remain at the leading edge of technology and simultaneously become more environmentally sensitive.

Through science and education activities we will lower production costs and develop an agricultural system which is more sustainable. For example, we propose to study plant genomes to identify the genes which regulate agriculturally important traits such as drought tolerance and disease and insect resistance.

Research and development of non-food, non-feed uses of agricultural commodities will be increased. Water quality, food safety, nutritional quality and the role of diet and health will be emphasized in USDA's science and education programs. In recognition of the globalization of agriculture research, there will be increased emphasis on international cooperation.

QUESTION: What will the National Initiative for Research on Agriculture, Food and the Environment mean to the competitive position of U.S. agriculture in international markets?

ANSWER: The ability of U.S. agriculture to expand and maintain foreign markets in the future will depend on our responsiveness to market demands. Therefore, new technologies are critical to our competitiveness in quality, price and marketing. A strong research base for new technology and an understanding of how to use the new technology will be enhanced by the Initiative. Not only will USDA support fundamental research in agriculture, but we will also emphasize mission-linked projects and thus tie basic research findings to the application stage in agricultural production systems and commercial development.

QUESTION: How will the proposed National Initiative for Research on Agriculture, Food and the Environment relate to USDA's existing research programs?

ANSWER: Plans for the Initiative were developed with input from a broad range of interested parties: farmers, scientists, professional societies, community organizations, research organizations, and others. The Initiative has its beginning in close association with the existing programs. As it is implemented, the USDA Assistant Secretary for Science and Education will organize a forum to solicit advice from Federal agencies, the public, and private advisory committees to ensure effective coordination across research programs. Therefore, the Initiative complements our ongoing research programs.

QUESTION: Considering the difficulty USDA has in recruiting scientists, where will you find the scientists needed to carry out the program proposed in the National Initiative for Research on Agriculture, Food and the Environment?

ANSWER: The Initiative will be carried out as a competitively awarded USDA grants program. Competition is one of the strengths of the program. Competitive grant programs make it possible to put new resources wherever talent is available to develop a winning proposal and conduct the best research. Federal agencies are eligible, but much of the program is expected to be carried out within public and private university systems. USDA experience with the existing competitive research grants program has shown that many high quality research proposals are not being implemented because of insufficient funding. In addition, the Initiative will help develop and increase the supply of new scientists. Grants awarded will provide expanded opportunities for graduate students and post doctoral candidates, many of whom will become available to USDA agencies for positions as research scientists.

QUESTION: Explain how USDA science and education efforts address concerns for a "sustainable agriculture"?

ANSWER: By "sustainable", USDA means an agriculture that is productive, competitive and profitable, conserves natural resources, protects the environment, and enhances public health. Techniques that contribute to sustainable agriculture are being developed. For example, biotechnology is increasing the genetic resistance of crops to insects and disease which decreases dependency on pesticides. USDA is also developing intercropping strategies that increase the crop canopy and reduce weed competition and soil erosion.

USDA research efforts are being expanded to speed the development of technologies, education and extension to facilitate the adoption of profitable, sustainable agriculture.

QUESTION: Much attention has been paid to environmental and health issues in 1990 Farm Bill discussions. What are you proposing for the USDA science and education programs in this area?

ANSWER: Environment and health are high priority issues throughout USDA and science and education programs have a special role in our efforts. Research is helping us better understand relationships between agricultural practices and their impact on the environment. Education programs are providing producers with information on the environmental and health effects of alternative practices and farming systems. USDA is giving particular attention to issues of food safety, water quality, and global change. As a part of our programs in this area, USDA will be emphasizing the need for the sustainability of agriculture, both in terms of long-term profitability and environmental sensitivity.

QUESTION: How does the USDA proposal for research relate to the President's Food Safety Initiative?

ANSWER: The President's Initiative addresses a broad range of food safety issues relating to pesticide tolerances, re-registration of chemicals, and other policy issues. USDA will collect and analyze residue data. Research would focus on developing methods to enhance food quality at the farm and processor levels. Education programs would assure rapid transfer of information to producers and processors and would improve science-based programs to provide consumers a more factual basis for assessing food safety concerns.

QUESTION: Global change continues to receive attention in the science community and in the media. What is the role of USDA on this issue?

ANSWER: The questions being raised about global change are clearly important and require more information. USDA is a full partner in a government-wide program of research to develop a more complete base of information on the changes in climate and other components of the environment, the causes of the changes, and the significance of the changes. The President's fiscal year 1991 budget request includes expanded research on the role of agriculture in global change and how potential impacts may be modified.

QUESTION: How does the USDA proposal encourage the industrial use of agricultural commodities and their commercialization?

ANSWER: USDA is placing increased emphasis on research in both the Agricultural Research Service (ARS) and in universities to develop new crops as well as to modify existing commodities to enhance their potential for commercial uses. Examples include ethanol based fuels and biodegradable plastics, with a goal to reduce our dependency on fossil fuels.

QUESTION: As in many other fields, other countries are developing significant agricultural research capabilities. Does the USDA proposal facilitate international cooperation in agricultural sciences?

ANSWER: The USDA proposal recognizes and encourages increased involvement in the international science and technology arena which will produce benefits to U.S. producers in a number of ways. U.S. scientists and educators can assist the growth of developing countries, which will provide markets for American agricultural products. International cooperation can also provide current information on scientific developments taking place overseas and identify new market potentials for American products.

Chapter VIII

Marketing and Inspection Services

QUESTION: The USDA proposal would require that all exported corn be tested for aflatoxin. Why is this necessary?

ANSWER: One of the principal reasons is to demonstrate to foreign customers our commitment to market high quality and wholesome grain. Enactment of this requirement will remove a potentially significant irritant in our international grain trade relations. The Federal Grain Inspection Service (FGIS) of USDA would perform the aflatoxin testing on all export corn shipments. Currently, FGIS tests almost 90 percent of commercial corn exports and 100 percent of the corn exported under U.S. food aid programs. In addition, USDA will pursue other improvements in grain quality such as monitoring for various chemical residues and the issue of dust recirculation.

QUESTION: Why is USDA proposing authority to invest in interest bearing accounts trust fund balances from three programs?

ANSWER: Trust fund balances are generated from fees currently collected under the Perishable Agricultural Commodities Act (PACA), the Tobacco Adjustment Act of 1983, and from user fees charged for reports, publications, and software. USDA already has investment authority for many of its programs which are financed by user fees. It is only logical that all other similar user-fee programs be provided authority to invest their revenue. Revenues collected would be used to offset fee increases for these programs.