TASK FORCE SERIES

Modernizing America's Food and Farm Policy:
Vision for a New Direction

REPORT OF THE AGRICULTURE TASK FORCE

Catherine Bertini, August Schumacher Jr., and Robert L. Thompson, *Cochairs*

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THE CHICAGO COUNCIL ON GLOBAL AFFAIRS

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FOREWORD

Meeting the Challenge

America's agricultural landscape has long been a source of great pride for the United States. From the "amber waves of grain" that ripple across vast stretches of the country's heartland to the "fruited plains" of California's Napa Valley, agriculture not only embodies our nation's most glorious vision of itself, but is a reminder of the rich natural resources with which the country is endowed. With a heritage of fertile cropland, highly skilled and hard-working farmers, and strong infrastructure and technological advantages, the United States has drawn upon its generous gifts to feed and sustain one of the world's great nations and, indeed, people the world over.

Today, however, like many sectors of the U.S. economy, agriculture is being challenged by global change. Trade talks in the WTO's Doha Round have been suspended, threatening the expansion of trade and economic development in emerging markets that is so important for the continued growth of U.S. agriculture. This is coupled with intense international competition for markets as countries such as Brazil and the Ukraine bring large quantities of low-cost land into production. Changing consumer preferences both domestically and internationally are requiring shifts in the amounts and types of foods produced. Technological innovations are introducing new uses for agricultural goods beyond food production.

Current U.S. agriculture policies are supporting a system that increasingly has difficulty meeting the demands of a changing environment. These policies, while raising farm income and protecting against sharp market fluctuations, suffer from perceived inequities, contribute to farm consolidation, and discourage many producers from adapting to market changes. U.S. support of current agriculture policies has also contributed to the lack of progress in the Doha Round.

The impact of the Doha Round extends far beyond agriculture. A successful round could be a catalyst for economic growth in the developing world, potentially bringing hundreds of millions of people out of poverty and expanding markets for U.S. agricultural products.

The pace of change affecting the domestic and global agriculture systems requires a new vision for U.S. agriculture. The 2007 farm bill provides a critical opportunity to undertake meaningful, sectorwide reform focused on ensuring the long-term competitiveness and sustainability of the U.S. agriculture and food system. This may require

painful transitions for some producers. Yet in the long-term it will benefit not just U.S. agriculture, but American consumers, rural communities, the environment, our nation, and the world as a whole.

The Task Force

The Chicago Council Task Force on U.S. Agriculture Policy was convened in September 2005 to examine key issues in U.S. agriculture policy and develop recommendations on how to address them. As a Midwest institution, The Chicago Council was well positioned to bring together a diverse group of experts and stakeholders to examine the challenges facing American agriculture in the twenty-first century.

The Task Force was cochaired by Catherine Bertini, former UN under-secretary-general for management and executive director of the World Food Program; August Schumacher Jr., former undersecretary of agriculture; and Robert L. Thompson, Gardner Chair in Agricultural Policy at the University of Illinois and former World Bank director for rural development.

Acknowledgments

The Chicago Council would like to first thank the three cochairs, Catherine Bertini, Gus Schumacher, and Robert Thompson, for their guidance of the Task Force. The Council is especially fortunate to have found three leaders with such broad, detailed, and complementary knowledge of the key issues affecting the U.S. and international agriculture and food sectors. Agriculture is considered by many to be one of the more complex and politically sensitive policy arenas. It is a testament to the leadership and dedication of the cochairs that the Task Force was able to bring such a diverse group of stakeholders together to agree on ways to move the U.S. agriculture policy agenda forward.

The Council would also like to extend its deep gratitude to the Task Force members. They brought a varied set of interests and perspectives to the table and yet were willing to work together during the deliberations to develop agreement on the broad framework for the report's policy recommendations. The knowledge, time, and ideas they contributed during the process are sincerely appreciated. The Council is also grateful to Jerry Hagstrom of the *National Journal* and David Oppedahl of the Federal Reserve Bank of Chicago, who served as observers and advisors during the deliberations.

The Council extends a special thanks to Ambassador Chris Goldthwait for his time and dedication in helping to shape the Task Force agenda and skillfully drafting a report that addressed the broad spectrum of issues covered during the Task Force deliberations. The Council would also like to acknowledge the tremendous work Catherine Hug undertook in contributing to the report draft, editing the report, and managing the publication process. Ken Ackerman played a critical editing role in refining the draft report, and The Chicago Council is very grateful for the time he dedicated to the project. Keith Good, from FarmPolicy.com, very diligently fact-checked the report. Richard Vogen from the University of Illinois very ably prepared the session summaries. Steve Dewhurst, former director of USDA's Office of Budget and Program Analysis, provided valuable comments on the budgetary implications of the report's recommendations. Matt Kurlanski assisted Ambassador Goldthwait in assembling the data for the report graphics.

Task Force deliberations were informed by the knowledge and perspectives brought by outside experts who gave testimony on a broad range of issues. We are grateful to George Braley, David Freshwater, April Taylor, and Clayton Yeutter for providing their thoughts and counsel. The Council and Task Force cochairs would also like to thank the numerous U.S. government officials who met with a delegation of Task Force members in Washington, D.C., in November 2005 for their time and insights.

Several members of the Council staff were instrumental in making this report possible. Christopher Whitney, the Council's executive director of studies, oversaw the project with great skill and direction from its inception through the creation and production of the report. Alya Adamany very ably managed all the meeting logistics and provided valuable input and work in the process of recruiting Task Force members and reviewing Task Force materials. Ambassador J.D. Bindenagel played a critical role early in the project in helping to recruit the Task Force cochairs and in obtaining project funding. Chicago Council staff and interns, including Jo Heindel, Ruby Khan, Diya Bose, and Keith Weghorst, also worked hard on the project.

Finally, The Chicago Council would like to express its deep appreciation and thanks to Kraft Foods Inc., Evans Food Products, the German Marshall Fund of the United States, and the Farm Foundation for the generous support that made this report possible.

Marshall M. Bouton
President
The Chicago Council on Global Affairs
September 2006

Executive Summary

The place of food and agriculture on the American national policy agenda has never been more critical. American consumers have long taken for granted a diverse, plentiful supply of safe, nutritious, and affordable food. American farmers have long enjoyed competitive advantages in food production, the resilience of U.S. natural resources, and a vibrant export trade. From 1950 to 2002 American agriculture enjoyed a 2.1 annual percent increase in total factor productivity, while the percent of personal disposable income spent on food by U.S. households dropped by nearly one-half, from 20 percent to 10 percent.

Food policy is critical not simply to the farm community, but to the nation. Its economic impacts are far-reaching. The food system—production, farm input and supply, food processing, distribution, and retail—not only feeds the nation but also provides up to 12 percent of American jobs and a similar proportion of the country's gross domestic product. It includes many of our leading corporations and has been a rare positive and continuing bright spot in the country's otherwise negative balance of trade. Agriculture affects regional economies throughout America, and food policy affects our health, our safety, our environment, our culture, and our global relationships. Agricultural trade can become a catalyst for change in developing countries, and biofuels offer America an alternative to dependence on unreliable overseas sources of fossil fuels.

Current trends, however, indicate that current agriculture policies are not sufficient for addressing the challenges facing farmers and the nation as a whole. Federal farm programs, while remaining popular with many producers, are not serving U.S. agriculture as well as in the past and are having unintended consequences. These programs have traditionally been justified as a way to provide insulation against market fluctuations and keep more small farms in business. Current programs do, in fact, increase incomes and provide some protection against sharp market changes. But rather than keep smaller farmers on the land, they have contributed to farm consolidation and higher land prices. This, in turn, makes it more difficult for younger farmers to enter farming. In many cases the programs also discourage producers of program commodities from switching crops as markets change and undermine the incentive to innovate and develop the specialty products today's consumers want.

Continued U.S. backing of our current farm programs is also one of the major reasons for the recent collapse of the World Trade

Organization's (WTO) Doha Round of negotiations. The view of this as a positive development by some U.S. farm groups is shortsighted. If it can be restarted, the Doha Round could be a catalyst for expanding markets for U.S. food and agricultural products. Additionally, our current farm programs are vulnerable to WTO litigation for breaking current international trade rules. We run the risk of losing these programs through litigation without receiving the benefits that a negotiated Doha Round agreement would provide. Farm programs that serve a smaller and smaller portion of farmers may also be vulnerable to Congressional budget-cutting because of their continuing high cost and perceived inequity at a time of historic deficits.

To be efficient and environmentally sustainable, agricultural production must be flexible and responsive to market opportunities. The biggest opportunity for American farmers today is in the new markets created by dramatically changing patterns of demand:

- Economic growth in developing countries
- Population growth and evolving consumption patterns in both the United States and developing countries
- The expanding role of agriculture in energy production

To secure these new markets, farm production must reorient itself to today's changing world, and public policy must support this goal. The Task Force is optimistic about the future of American agriculture. Those countries whose governments allow and encourage their farmers best to compete will win new domestic and international markets resulting from anticipated growth in food demand, new bio-based sources of energy, and better stewardship of natural resources. For the United States, this result is within reach. We enjoy competitive advantages in our natural resource base, production technology, and infrastructure. Our financial infrastructure, from cash and futures markets to credit and sophisticated investment services, provides an essential foundation for farmers, agribusinesses, and rural communities.

To maintain leadership, American policymakers must adopt a new vision, replace outdated approaches, and reform ineffective programs. In 2007 Congress will craft a farm bill to set the course of American policy for the next five years or more. Every American has a stake in this process. The global economy as a whole stands to benefit or lose. The farm bill covers not just farming, but helps

set national policy on nutrition, rural development, conservation, agricultural research, trade, food safety, and a host of related topics. It has a substantial impact on consumers through the cost, quality, availability, diversity, purity, and sustainability of the food we feed our families. Now is the time to put new ideas on the table so they can be debated, understood, refined, and fully considered.

The Task Force's program for change covers seven crucial, interlinked areas of food and agricultural policy. In general, the 2007 farm bill should use funds made available from the elimination of current programs and price supports to provide a blend of new non-trade-distorting alternatives, including revenue insurance, transition measures, and investments that support the agriculture sector as a whole such as for research, conservation, and rural development. The Task Force's principal recommendations are described below.

A. Growing New Markets

The United States needs to make a commitment to getting the Doha Round restarted. We must recognize that reform of U.S. agricultural policies is in our best interest in order to ensure a competitive and sustainable agricultural sector. It is essential that multilateral trade negotiations continue and result in an agreement that opens markets, promotes growth in developing countries, and levels the competitive playing field. The long-term success of the Doha negotiations is critical to the future of American agriculture and that of other efficient farmers in developed and developing countries alike. Efforts by government and farm community leaders should be directed toward this end. The United States must renew its offer to change our current domestic programs as well as its few remaining U.S. export subsidies. This will empower our trade negotiators to win the strongest agreement for American export growth. It will additionally be critical for Congress to renew the president's Trade Promotion Authority, set to expire in July 2007, so that an eventual multilateral trade agreement can be successfully navigated through Congress.

The sector's competitiveness will also rely on the availability of sufficient labor at a variety of fair and livable wage scales. Immigrant workers play a vital role in fulfilling these labor requirements and the Task Force urges the enactment of comprehensive immigration reform to ensure that the agriculture and food sectors can continue to have access to needed labor.

B. A New Regime for Domestic Support

The setback in the Doha Round should not be used as an excuse to avoid needed changes to our domestic support programs. A new approach should address distortions current policy causes in farm structure and production as well as serve a broader range of producers.

We propose that the entire grouping of product-specific, trade-distorting income and support programs, including countercyclical and loan deficiency payments, price supports, and federal crop insurance and disaster payments, be replaced with a new portfolio of approaches that are nondistorting and compliant with WTO green box rules, including:

- Direct payments that are delinked from specific types of production and from market conditions so as to comply fully with green box standards and that are only used during a transition period until other approaches are fully developed

- A universal revenue insurance program covering all commodities on a multiproduct basis that allows farmers to purchase coverage at subsidized rates to protect against losses in price and in production

- A new land stewardship program that recognizes and rewards the value of the environmental contributions made by farmers and pays producers according to the kind and amount of environmental goods and services they provide

- Farmer savings accounts similar in structure to tax-deferred 401(k) accounts that are backed by government matching contributions and that could be tapped for a variety of farm household costs, including health care, education, or retirement savings

- A significant investment in public goods that benefit the entire farm sector, including research and infrastructure projects; not less than 20 percent of the federal baseline funds currently committed to trade-distorting domestic support programs (in addition to money spent on stewardship and conservation programs) should be redirected to investments in these sectorwide public goods

- Transition measures to protect farmers and owners of rented farmland against investment losses such as declining land values as a result of the proposed changes to support programs

The proper development, experimentation, and implementation of these new programs will take time, but should be accomplished within the five-to-six-year term of the next farm bill.

C. Balancing Hunger and Nutrition

An integral part of U.S. agriculture policy is food policy, particularly providing food to vulnerable populations. While the United States can be proud that nutrition education and food access programs have served millions of low-income Americans, hunger persists, and the country today faces an alarming rise in dietary health problems. Diseases linked to nutritional imbalance are reaching epidemic levels, especially among the poor, who are the principal beneficiaries of federal nutrition programs. Obesity now plagues more than sixty million American adults, and nearly twenty-one million Americans are affected by diabetes. Yet federal nutrition and hunger mitigation programs have failed to reorient themselves effectively to address these critical new problems.

The Task Force believes that federal feeding programs such as the Women, Infants, and Children program (WIC) and the Food Stamp Program should be formally linked to nutritional goals as outlined by USDA and the Department of Health and Human Services in their published dietary guidelines. The recently issued regulations on current WIC commodity allocations need to be finalized to add fruits and vegetables as an eligible category. For the Food Stamp Program, modern checkout counter technology can and should be used to make the least nutritious foods ineligible, to magnify the value of stamps used to purchase the most nutritious foods, and to shrink the value of stamps used to purchase less nutritious foods.

Similar steps should be taken to reorient other nutrition programs such as the National School Lunch Program to comply with published dietary guidelines and to institute accompanying education programs. Schools that reflect the dietary guidelines in their meals and ban products with low nutritive value from vending machines would receive higher subsidies, while payments would be lowered for those schools that did not. We recognize that many school districts, and even some states, are moving in this direction already.

D. Safeguarding Land and Water

Farmers and ranchers are the stewards of about one-half of the land surface of the United States. They play a critical role in safeguarding the nation's land and fresh water. In addition to the new land stewardship program proposed as part of the fundamental restructuring of domestic support programs, land use planning efforts must be strengthened; spending on research and technical assistance must be restored; and clear, aggressive goals must be established for existing programs, stressing the efficient use and protection of water resources and other effective conservation practices.

E. Bolstering Rural Communities

Rural communities today are less dependent on farming than ever before, and most farmers earn the majority of their living from nonfarm sources, including tourism, small businesses, and regional distribution networks. The Task Force proposes that Congress reorient programs to help rural communities diversify their economic structures and create off-farm jobs. Specific initiatives should target improving education, health, and infrastructure, including universal access to modern information technologies such as broadband Internet access and providing a more investment-friendly environment.

F. Renewable Energy from Agriculture

The federal government should continue to support research on biofuels as a meaningful alternative to unreliable sources of fossil fuel. Current subsidies, in combination with support under the Energy Policy Act of 2005, are adequate to seed these new industries. Research should focus on new technologies to produce usable energy from cellulose or other feedstock that can be grown on lesser-quality land. Federal support programs must insist that as these biofuel industries mature and market conditions permit, companies benefiting from biofuel subsidies and import restrictions develop business models that ultimately accommodate a scaling back of such federal support to levels consistent with those given to other fuel production sectors.

G. Global Hunger and U.S. Food Aid

Food aid remains a moral imperative in times of disaster and a key foreign policy tool for the United States. To make it more efficient and effective, the Task Force proposes the following:

- Current concessional loans to foreign governments should be eliminated and replaced with support for the McGovern-Dole International Food for Education and Child Nutrition Program, an overseas school feeding initiative.

- Funding requirements for cargo preference should be shifted from USDA to the Department of Defense. Savings in the agriculture account of the budget could then be used to purchase food aid from local producers in developing countries.

The Task Force's goal is to advocate its view of the best direction for public policy. It recognizes that once the direction is chosen, the process of change will have just begun. It will take much hard work to flesh out these ideas and translate them into workable, sound legislation, particularly in the domestic support area. Leadership will be essential to break old habits. Stakeholders in this effort include interests both in and beyond the agricultural sector. The Task Force urges voices from across the spectrum of American life, including business, consumers, trade, development, health, nutrition, and conservation, to join the debate. Change will occur whether or not we plan for it. The question is whether we will have the foresight to embrace change and shape it to our benefit, or whether we will allow ourselves to become its victims.

Part I: The Case for Change

Chapter I
Modernizing America's Food and Farm Policy

The place of food and agriculture on the American national policy agenda has rarely been more critical than it is today. Agriculture affects regional economies throughout heartland America, and food policy affects our health, our safety, our environment, our culture, and our global relationships. While less than two percent of the American labor force is today engaged directly in farm production, the food and agriculture sector overall—production, farm support, food processing, distribution, and retail—not only feeds the nation but provides up to 12 percent of American jobs and approximately 12 percent of the nation's gross domestic product.

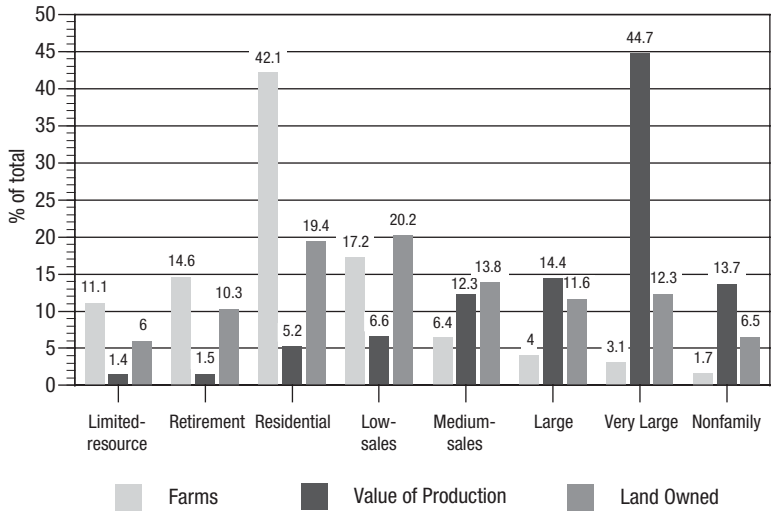
Rapid domestic and global changes have brought serious challenges to this sector along with enormous opportunities. American consumers have long taken for granted a diverse, plentiful supply of safe, nutritious, affordable food, and American farmers have long enjoyed competitive advantages in food production, natural resources, and export trade. New trends, however, are potentially placing many of these advantages at risk. To maintain leadership, American policymakers must adopt a new vision, replace outdated approaches, and reform ineffective programs.

In 2007 Congress will craft a farm bill to set the course of American food policy for the next five years or more. Every American has a stake in this process. The global economy as a whole stands to benefit or lose. The farm bill covers not just farming, but sets national policy on nutrition, rural development, conservation, agricultural research, trade, and food safety and impacts components of national energy policy (see *Titles of the Farm Bill,* page 23). It will have a substantial impact on consumers as well: The cost, quality, availability, diversity, purity, and sustainability of the food we feed our families are at stake. The Task Force believes now is the time to put new ideas on the table so they can be debated, understood, refined, and fully considered.

Background

Agriculture has a rich tradition in America, rooted in the agrarian ideals of Thomas Jefferson; the pragmatism of Abraham Lincoln, who in 1862 signed the Homestead Act and created the federal

Fig. 1 Distribution of Farms, Value of Production, and Land Owned, by Farm Type, 2003



Source: Hoppe, R., MacDonald J., and Banker D., "America's Diverse Farms: Structure and Finances," USDA Economic Information Bulletin No. (EIB-13), May 2006.

Department of Agriculture; and in the courage and hard work of generations of pioneers who settled the continent, tilled the land, and made America the breadbasket of the world. As the country has evolved over the past two centuries from a mostly agrarian society to the highly industrialized, urbanized and suburbanized, service-oriented, global economic power that it is today, agriculture has changed with it. From labor-intensive production on small family farms blanketing the countryside—farmers comprised over 40 percent of the U.S. workforce as recently as 1900—agriculture today has become specialized, efficient, technology-driven, and mechanized, concentrated on a shrinking number of large farms amid rural areas with diminishing farm populations. Rural communities, where tens of millions of Americans live and work, receive only limited benefits from programs directed solely at individual farmers. Many of these towns are losing their economic base and struggling to survive. Young people in rural America find little reason to stay home or to return after college or military service.

Farm producers are vulnerable to forces beyond their control: global price volatility, market turbulence, and the vagaries of weather and natural disasters. Current U.S. farm policy emerged in the 1930s

as an emergency response to the economic hardships of the Great Depression and the dust bowl. The goal initially was to address widespread rural poverty and protect the country's food production base by keeping farmers on the land. The support programs conceived during President Franklin D. Roosevelt's New Deal reflected the structure of farming at the time; they were aimed at specified commodities—wheat, cotton, and a handful of other so-called "program commodities"—and intended to reach the large number of small farms that produced one or more of these commodities. Today, however, farm concentration has accelerated to that point that in 2003 the largest 9 percent of operations generated 73 percent of all U.S. farm output. Unsurprisingly, these largest producers received 51 percent of federal farm program payments. At the other end of the spectrum, the majority of "rural residency farms"—67 percent of the total—produce only a small share of national output. Many show negative farm income for tax purposes, and they receive 17 percent of federal payments.

These programs have been modified many times over the years, but key underlying concepts remain embedded (see Appendix D for more details on commodity support programs). Our farm support programs remain predominantly (a) tied to a small set of "program commodities," (b) tied to current production, and (c) designed to provide participating farmers (less than one-half the total) an income level above what the market could otherwise provide. This income is generated either through government loans at below-market interest rates or purchases at above-market prices, import barriers that boost prices to artificial levels (such as for sugar or dairy), or direct payments to farmers reflecting hypothetical "target prices" or statutory formulas based on historical, not current, production. Recent farm bills have taken positive steps to delink payments from individual crop-planting decisions, but the steps have been incomplete, and the payments remain noncompliant with international trade law.

Over the decades, our farmers, backed by government support, have provided our country with the most ample, safe, and affordable food supply in the world. They have also sustained the support of Congress for farm bills upholding traditional support programs. But today, globalization, shifting demand patterns, new technologies and market structures, and other factors have exposed many inadequacies.

To remain competitive and environmentally sustainable, agricultural production must be flexible and responsive. The biggest opportunity for American farmers today is in the new markets created by dramatically changing patterns of demand:

- Economic growth in developing countries
- Population growth and evolving consumption patterns in developing countries and the United States
- The expanding role of agriculture in energy production

To gain these potential new markets, farm production must be consumer-driven and reoriented to today's changing world. Public policy must support this goal. Instead, some of today's U.S. farm programs distort production and markets, discourage farmers from switching crops as markets change, and undermine the incentive to innovate and develop the specialty products today's consumers want.

Nutrition, too, has long been a central focus of American food and agriculture policy. Nutrition education through USDA's Extension Service began as early as 1914, and the first federal Food Stamp Program was undertaken in 1939 at the height of the Depression. Nutrition today comprises the largest single element in federal agricultural spending (more than $51 billion per year). Food stamps benefit some twenty-six million Americans and have been supplemented by programs such as the Women, Infants, and Children program (WIC), which reaches 8.2 million recipients; the National School Lunch and Breakfast program, reaching nearly thirty million; the Farmers' Market Nutrition Program; and the Senior Farmers' Market Nutrition Program, which benefits an estimated three million mothers, children, and low-income seniors. Overall, one in five Americans participates in at least one of USDA's food and nutrition assistance programs.

While we can take pride that U.S. nutrition education and food access programs have served millions of impoverished Americans, hunger persists and the country today faces an alarming rise in dietary health problems. Diseases linked to nutritional imbalance are reaching epidemic levels, especially among the poor, who are the principal beneficiaries of federal nutrition programs. Obesity now plagues more than sixty million American adults, and nearly twenty-one million Americans are affected by diabetes. Yet these programs have failed to reorient themselves effectively to address these critical new problems.

Modernizing America's Food and Farm Policy

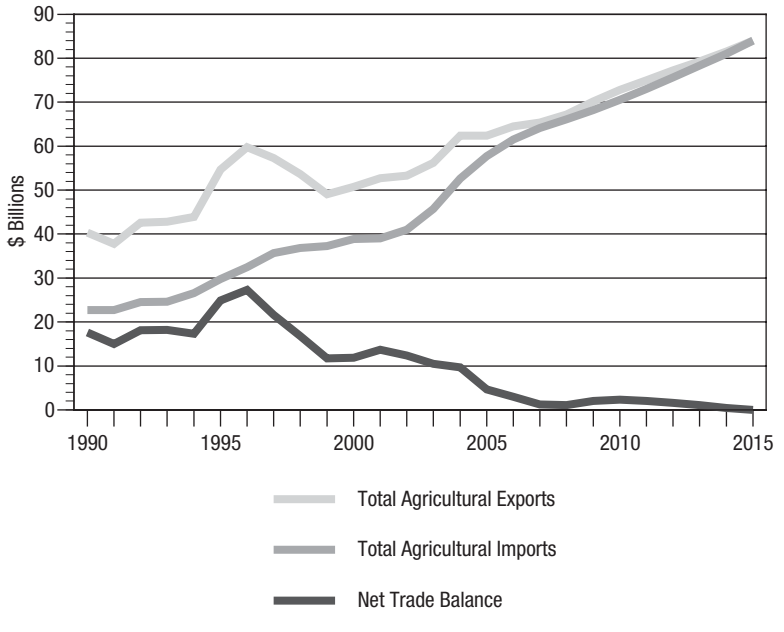
Trends and Threats

Global Demand and Trade

U.S. agricultural productivity growth has outpaced domestic demand growth for over a century. As a result, export markets have become an important source of increased sales and revenues for American agriculture. The United States is the world's leading exporter of farm products, and in 2004 the United States exported nearly one-half of its food grain production. Agriculture today is twice as dependent on foreign markets as the country's economy as a whole. Foreign markets should continue to provide growth opportunities for American farmers. World population is expected to increase by 50 percent, or an additional three billion people by 2050. When taken together with broad-based economic growth, this could result in a doubling of global food demand.

Trade liberalization, especially agricultural trade liberalization, is critically important to unleashing this demand through faster eco-

Fig. 2 U.S. Agricultural Trade 1990-2015



Source: "USDA Agricultural Baseline Projections to 2015," Table 33, Baseline Report OCE-2006-1, February 2006.

nomic growth in developing countries. Development translates into purchasing power and increased demand for agricultural products. Growth is already allowing hundreds of millions of citizens in developing countries to escape poverty and afford more varied and higher quality diets. In India and China, the world's two most populous countries, economic growth rates ranging from 6 to 10 percent have become the norm.

International trade negotiations, if successful, could accelerate this growth in demand and position American producers to meet it. The Uruguay Round Agreement, adopted in 1994 after eight years of negotiations, introduced the first comprehensive trading rules for agriculture. The vision was to open protected markets to global competition by converting nontariff import barriers to tariffs and reducing them, by capping and reducing trade-distorting domestic agricultural support, and by eliminating export subsidies. Some trade liberalization resulted, but it left a long way to go. The recent collapse of the Doha Round jeopardizes American farmers' opportunities to gain from more open markets and a more level global playing field through stricter limits on trade-distorting domestic support and export subsidies. The American farmer stands to gain significantly from such an agreement.

Without a new agreement, we will be left with the current trading rules we helped write in the Uruguay Round negotiations. Many of our current policies, however, put us at risk of international litigation under these rules. Brazil, for example, recently won a case challenging U.S. domestic support and export subsidy programs for cotton. The ruling poses a threat to other American commodity-specific programs, a number of which are structured similarly to cotton.

The Doha Round talks had offered an opportunity to review and revise these rules, but now the negotiations themselves are in great peril. Failure to complete them will constrain global trade growth and slow projected increases in demand. It is time for the United States and its WTO partners, both developing and developed countries, to recognize the benefits of reform, even if the transition may be difficult, and get back to the negotiating table.

The need for U.S. agriculture to remain competitive is underscored by the success of some of our competitors. In the past decade, much of the growth in foreign demand has been captured by Brazil, which has been able to bring huge acreages of low-cost land into production. In land-poor countries like China, low-cost labor and policy changes are enabling a rapid switch from row crops to higher value-per-acre crops like fruits, vegetables, shrimp, and other products.

Russia and the Ukraine have the potential to increase grain exports significantly if adequate sector reforms are implemented.

Changing Consumer Demand in the United States

Overall demand for food products is also growing in the United States. Alone among the major industrial countries, the United States is expected to experience rapid population growth between now and 2050. Spurred by immigration and a positive fertility rate, the Census Bureau projects that the number of Americans will rise by more than 40 percent to 420 million during this period. Policy needs to be carefully crafted to ensure that American agriculture not only contributes to energy security and export earnings, but also provides adequate food production for our national population.

Accompanying this rise in American and regional food demand has been an accelerating change in tastes. Consumers are increasingly segmented, diverse, and on-the-go. Many are demanding healthier, more convenient, and more diverse products, including more fresh and organic foods and processed specialty foods. The evolving health consciousness of many Americans poses an enormous challenge and opportunity for government and producers alike. U.S. demand for high-value products available 365 days a year—including many imported fruits, vegetables, beer, and wine—has caused our positive agricultural trade surplus, long a source of pride to the farm community, to nearly evaporate (see Fig. 2). Farmers who can respond quickly and supply differentiated specialty products will prosper; those who cannot will lose these markets.

At the same time, many Americans are eating too much of the fattiest, highest sugar content, and least nutritious foods available, raising obesity and diabetes to epidemic levels, particularly among the young and the poor. Often, nutritional problems are exacerbated by geography and economics. Fruits and vegetables can be relatively expensive and scarce in inner cities, poorer communities, and less economically developed regions of the country.

Some American consumers are paying more attention to the environmental impact of food production. Concerns of consumers about the effects of chemicals and pesticides on food safety and the environment, fair or not, are fueling interest in what they perceive to be more environmentally friendly practices. Organic farming has emerged as a growing commercial force. Some consumers are prepared to use their purchasing power to back up concerns about land, water, air quality, and wildlife and landscape. Farmers pre-

pared to answer that demand with stewardship programs or other services will benefit. Again, those who cannot will lose these market opportunities.

Unintended Consequences of Farm Programs

One of the original goals of American farm policy was to keep producers on the land, but this simply has not occurred. Each decade, more farms consolidate, and commodity production is further concentrated on the largest, most efficient commercial operations. Part of the reason is productivity growth. Federal domestic support programs, which distribute benefits in proportion to production or sales, have also contributed to the trend. Larger farm operations have often invested money received from government program payments in the purchase of even more farmland as well as newer, larger, higher-tech machinery with which to cultivate the larger acreage.

Farm programs are also not reaching many new farmers. Surprisingly, the fastest growth in farm operators in America is among full-time female farm operators, followed by new Hispanic, Asian, and Native American farm operators. Few receive farm program benefits.

In addition to consolidation, when payments are tied to a historical product mix, the programs lock farmers into old planting patterns shielded from market signals and fluctuations. These policies reduce farmers' planting flexibility and responsiveness to market demand for nontraditional crops. Even the partial delinking of so-called "direct payments" from growing decisions under the 1985, 1990, and 1996 farm bills failed to reverse this trend.

Rural communities that do not diversify their economies feel the pinch of farm consolidation. The populations of many rural counties continue to fall, putting pressure on schools, hospitals, telecommunication services, local businesses, and government tax bases. Young people growing up in small towns see little reason to remain there. A different approach to farm and rural development programs is needed to revitalize rural America.

Land and Water Management and Aging Infrastructure

Today, the basic resources of agriculture—farmers' access to land and water—are potentially at risk. Each year we are losing 1.2 million acres of often prime farmland to urbanization, a trend seen coast to coast from the Central Valley of California to the outskirts

Modernizing America's Food and Farm Policy

of eastern cities like Philadelphia, Harrisburg, and Washington, D.C. Farmland is also being increasingly used for purposes other than food production such as environmental restoration and the production of industrial crops for renewable fuels, plastics, and other products. Agricultural overexploitation of water from our most important aquifers is threatening the sustainability of both those aquifers and agricultural production in those regions. The lack of planning to mitigate these trends is a serious problem and must be addressed.

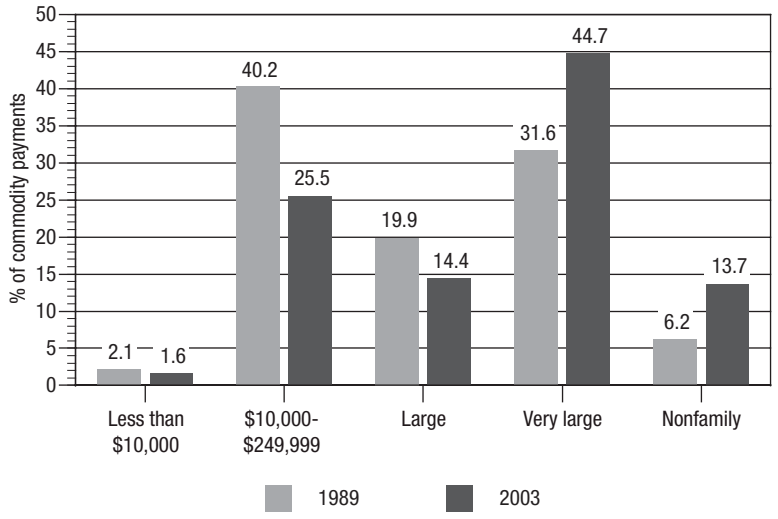
Our transportation infrastructure, long considered a prime competitive advantage for American agriculture, is growing old, and not always gracefully. The waterways so critical to commodity movement in the Mississippi Basin need investment quickly. Most locks and dams are living on borrowed time, dating from the 1930s to 1950s and having an estimated life span of forty to fifty years. Rail transport poses problems of its own, as some lines fall out of use, competition is reduced on others, and competition from nonagricultural cargos intensifies. The quality of rural road and bridge maintenance varies among states. Where new road construction is booming, it is mostly in response to urban/suburban needs, which intensifies pressures on farmland.

New Markets: Green Energy and Bioproducts

One trend that deserves special emphasis is the emergence of two rapidly growing areas that impact demand for agricultural goods: energy and so-called bioproducts, including pharmaceutical products that may be used to help prevent and treat illnesses. Recent soaring gasoline prices have dramatized the need for the United States to develop dependable alternatives to fossil fuels. Our national security depends on weaning ourselves away from primary dependence on fossil fuels, particularly from unreliable foreign energy sources.

Biofuels, the most promising alternative, are rapidly becoming a boon for some agricultural producers. Corn-based ethanol has been the most prominent alternative developed thus far in the United States, but a full range of biomass-based energy sources is on the cusp of development and, with adequate investment and research support, hold great promise for the future. This opportunity to enhance the country's security and economic future through renewable energy, while providing a sizable market for American crop producers, will be an important consideration in future U.S. farm policy.

Fig. 3 Distribution of the Value of Production by Farm Type, 1989, 2003



Source: Hoppe, R., MacDonald J., and Banker D., "America's Diverse Farms: Structure and Finances," USDA Economic Information Bulletin No. (EIB-13), May 2006.

Budget Deficits

These challenges for American agriculture are occurring at a time when federal budget deficits are at historic levels and calls for spending cuts across the board are growing increasingly urgent. The president's fiscal year 2007 budget proposal asked for a 6 percent cut in discretionary agriculture spending, even after major increases to ensure the safety of the nation's food supply are factored in. The agriculture community and its allies on Capitol Hill have been effective over the years in protecting the agriculture budget, but we cannot assume that this will continue in the future. If a successful agricultural sector is to be sustained over the long term, it may have to be prepared to do more with less. Policy reform is essential in order to make more efficient use of the financial resources provided to it.

Beyond the budget pressures themselves, taxpayers both inside and outside the farm community increasingly question the fairness of government program benefits. The enormous disparities in the distribution of payments among commodities and regions and the fact that most farmers receive no direct government payments at all contribute to these equity concerns. To sustain support for the agriculture budget and allow passage of future farm bills, these programs must be rationalized.

U.S. Competitive Advantages

We are optimistic about the future of American agriculture. Those countries whose governments allow and encourage their farmers best to compete will win new domestic and international markets resulting from anticipated growth in food demand, new bio-based sources of energy, and better stewardship of natural resources. For the United States, this result is within reach. We enjoy competitive advantages in our natural resource base, production technology, farm management skills, and infrastructure.

America is blessed with some of the world's best cropland, from the Central and San Joaquin Valleys of California to the Delta bottomlands to the rich prairie soils of the Midwest to the sunny orange groves of Florida. In contrast to some foreign competitors, most of our country can rely on ample rainfall year after year. Our natural resources of land and water have been augmented over the years by high levels of capital investment and the development of advanced farm production technologies. Our commercial farmers are highly productive, whether measured by output per farmer or output per acre. This country's plant and animal health systems are also among the best in the world, and all of this is supported by billions of dollars per year invested in research by both the government and the private sector. This research, in turn, has contributed to making the United States the world leader in agricultural biotechnology.

The American transportation infrastructure, with quick attention to needed upgrades and the requirements of the emerging biofuels industry, can continue to bring American food production to the market reliably and efficiently. Government services, ranging from technical assistance to food and animal safety, have been built over generations to a high standard. Our financial infrastructure, from cash and futures markets to credit and sophisticated investment services, provides an essential backstop for farmers, agribusinesses, and rural communities.

With this solid base, we can build with confidence. What we need now is a new direction.

Chapter II
Vision for a New Direction

Our Task Force has concluded that American agriculture can prosper only through a bold break from past policies and the charting of new directions. The easy course, especially in the wake of the Doha Round's collapse, would be minimal change. The leadership of the agricultural community needs to build support for a more fundamental shift in policy that is in the long-term interest of U.S. agriculture, even if a Doha Round Agreement is years in the future.

The goal for the U.S. food and agricultural sector is to build on our position as a leading supplier to domestic and international markets of safe, nutritious food for diverse diets, plus fiber and agricultural raw materials for industry and energy. The Task Force sees policy defined in the farm bill at the forefront of protecting and enhancing our natural resources and strengthening our rural communities. To do this, a new policy framework must:

- Ensure the continuation of a nutritious, reliable, safe, and diverse supply of food for all Americans and ensure that those in need do not go hungry
- Build on natural advantages to ensure that U.S. agriculture remains a competitive leader in global and domestic markets
- Ensure that it is sustainable with respect to land, water, human resources, and healthy rural communities
- Rely primarily on markets, limiting government to a clearly defined, appropriate role in meeting the needs of producers and consumers

To compete and succeed, American producers must take advantage of market forces. The U.S. government has a tradition of helping farmers navigate periods of sagging prices and survive hostile weather and natural disasters. However, programs must be designed carefully to avoid distorting market signals or placing American production incentives at odds with international trade law.

We believe that the resources dedicated to government support programs should be shifted away from production- and trade-distorting policies that link support to current production and/or prices

Titles of the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill)

Title I—Commodity Programs: Contains the domestic support programs described in Chapter IV.

Title II—Conservation: Includes conservation and environmental programs discussed in Chapter VI.

Title III—Trade: Contains legislation for the export and food aid programs, including amendments to PL 480, discussed in Chapter IX.

Title IV—Nutrition Programs: Includes the food stamp and other USDA nutrition programs discussed in Chapter V.

Title V—Credit: Contains a variety of farm credit programs, including authority for the Farm Credit System.

Title VI—Rural Development: Includes legislation for USDA's many rural development programs as discussed in Chapter VII; many federal rural development activities are also authorized in other legislation.

Title VII—Research and Related Matters: Includes authority for the Agricultural Research Service and land grant university programs as well as other research activities, which are touched upon in Chapter III.

Title VIII—Forestry: Contains authority for programs of the Forest Service and legislation affecting the national forests.

Title IX—Energy: A relatively new addition to the farm bill, this title authorizes support for ethanol production and other bioenergy activities, discussed in Chapter VIII.

Title X—Miscellaneous: Includes a wide variety of programs and activities not fitting well in other titles of the bill; from this report's standpoint its most important provisions are those for crop insurance.

of specific "program commodities." Resources should be redirected toward non-market-distorting approaches such as market-oriented risk management tools available to all producers on a multi-commodity basis as well as toward public goods such as research, infrastructure, and conservation. This change is fundamental, and producers must be persuaded to accept the concept. Their buy-in will be essential to achieving any lasting reform. We believe this major change is in farmers' long-term interest, even if relinquishing payments will be difficult for many in the short run.

The Task Force believes that U.S. agricultural policy reform, especially basic change in domestic support programs, should begin with the development and passage of a new farm bill in 2007.

Farm bills are usually passed once every five or occasionally six years. While there is support among some agricultural sectors for an extension of the current farm bill, there are also many pressing needs that must be addressed. The opportunity to shape a new policy that meets the needs of the broader U.S. food and agriculture sector is now.

The Budgetary Challenge

We believe that our proposals, once implemented, can achieve more with less. Agriculture must anticipate that it will be required to contribute some share to the reduction of the federal budget deficit in the future. Even the current spending projections for USDA include modest reductions. However, during the transition period to a new policy structure, funding is likely to remain close to current levels and, in some stages and sectors, may increase for a temporary period.

Part II: Recommendations

Chapter III
Growing New Markets

American farm producers increasingly rely on and benefit from the existence of a stable, rules-based international trading system providing access to global markets. Today, with the Doha talks on hold, America may miss a critical opportunity to shape those rules for the future. Nevertheless, the Task Force believes we must move forward with change that is in our own best interest. Continued U.S. backing of our trade-distorting domestic support programs is one of the major stumbling blocks in the negotiations. Chapter IV lays out the Task Force's plan to transform these programs into non-trade-distorting approaches that qualify for so-called "green box" treatment under WTO rules (see *WTO Color Categories* below). By starting this transformation now, we can empower our negotiators, if and when talks resume, to press forcefully for completion of a Doha agreement that truly opens markets, reduces subsidies, and provides real opportunity for increased foreign purchases of American food and agricultural products.

WTO Color Categories

In WTO terminology, subsidies in general are identified by "boxes" that are given the colors of traffic lights: green (permitted) and amber (slow down, i.e., be reduced).

The "amber box" includes domestic support measures that distort production and trade because benefits are linked to the production or prices of specific commodities. The total value of these measures must be kept below specified ceilings, generally referred to as the country's "total aggregate measurement of support," or AMS.

The "green box" includes subsidies that do not distort production and trade, or, at most, cause minimal distortion. These include two categories of support: (1) investments in public goods like agricultural research and rural infrastructure, and (2) decoupled direct payments that have no link to current production or price of any specific commodity. There are no caps on green-box supports.

The "blue box" is a variant on the amber box in which supply controls or land set-asides offset the supply-inducing effect of subsidies. There is at present no cap on blue box supports.

Source: World Trade Organization.

To successfully compete in new markets, American agriculture must build on its strengths: technology; abundant resources; developed infrastructure; and highly skilled, productive, committed farmers. Rather than directing budget resources toward domestic support programs targeting individual farmer payments, an increased share should be redirected and focused on what economists refer to as "public goods," investments that improve the competitiveness of the entire farm sector such as research, infrastructure, and conservation. The United States has abundant land and water resources as well as advanced technology and plant and animal health systems. With policy changes to encourage entrepreneurship, our farmers can excel at producing differentiated products (see *A Survival Strategy for Small- and Middle-Sized Producers: Differentiated Products* below). Removing the distortions in our production and markets caused by current commodity programs will strengthen this edge.

Beyond the imperative of reforming domestic support and other specific agriculture programs, the Task Force envisions a three-pronged approach to sharpening American competitiveness:

1. Stronger, market-oriented international trade rules that will provide U.S. producers with the opportunity to compete overseas and allow other countries to compete for our markets

A Survival Strategy for Small- and Middle-Sized Producers: Differentiated Products

Differentiated products are those with unique design or qualitative characteristics, in contrast to undifferentiated bulk commodities, that can often be sold at higher prices than other products. Production of these niche items presents a growing opportunity for farmers to satisfy changing customer tastes and increase the profitability of their goods. By producing crops with specific characteristics, like soybeans with particular types of protein or oil content, farmers can gain competitive advantages. Organic produce and ethnic/exotic goods are some examples of differentiated products that meet growing consumer demand. Marketing plays a critical role in the profitability of these items. Labels such as "Florida oranges" or "free-range eggs" become a way for sellers to brand items and mark up prices.

A number of U.S. food companies that make preserved and packaged food items have become very competitive in international markets for branded, or differentiated, food items. None of these companies participate in U.S. government support programs, although some have benefited from market promotion activities.

Source: "Making American Agriculture Productive and Profitable" (American Farm Bureau Federation) White Paper Series, August 2005.

2. Restoration and augmentation of investments in public goods such as research, infrastructure and conservation that support our food and agricultural system

3. Broader and enhanced coordination across federal departments on issues that affect agriculture's competitiveness such as immigration and the needs of rural people and regions

The Task Force believes that trade liberalization is in the strong interest of U.S. agriculture and that agricultural leaders need to support U.S. efforts to restart the Doha Round.

It is time for the United States and other members of the WTO to step back from the brink and recognize that further reform of agricultural trading rules is in everybody's interest if progress can be made in all three of the major areas of negotiation: eliminating export subsidies, disciplining domestic support programs that affect trade, and increasing market access in all countries. For example, in the case of cotton, the United States' current domestic programs have been found to be inconsistent with the rules established in the Uruguay Round. Elimination of these and other programs may be forced upon us as a result of litigation unless we act first to carefully plan reform, providing viable alternatives and transition measures that protect our producers from the shock of sudden change.

Enthusiasm within the American farm community for trade liberalization has declined in recent years for a number of reasons. First, although the Uruguay Round was successful in establishing international trade rules for agriculture, the agreement contained many loopholes and accomplished little in terms of real liberalization. The progress that was achieved has been overshadowed by events like the financial crises in Southeast Asia and Latin America. Further, many farmers now see the rapid growth in domestic demand from industries like ethanol as a surer pathway to higher income than trade liberalization.

This view, however, is shortsighted. First, the U.S. agricultural sector is already far more dependent on trade than most other parts of our economy (see *The Importance of Export Markets to U.S. Agriculture*, page 28). Further, trade distortions hurt American farmers. American farm exporters face average tariffs of 62 percent, compared with an average of 12 percent for agricultural imports into the United States. Additionally, the Doha Round is critical to achieving

economic growth in developing countries, which will be the most significant driver of growth in foreign demand for agricultural goods. Faster, broad-based economic growth that reduces poverty will give low-income people in developing countries the purchasing power to diversify their diets. This will expand demand for animal protein, fruits, vegetables, and edible oils. With 1.25 billion people who live on less than $1 per day—three-quarters of whom suffer from hunger at least part of the year—and three billion people who live on less than $2 per day, the potential growth in food consumption from economic growth is enormous.

The Doha negotiations are based on the three Uruguay Round pillars: increasing market access, reducing export subsidies, and reducing trade-distorting domestic support. The failure of any one of these will limit the ability of American farmers and ranchers to benefit from foreign market growth. Consumers stand to benefit from liberalized agricultural trade, which produces lower prices and a greater variety of goods available at the grocery store. They, too, have an interest in the outcome of this debate.

Only strong leadership within the agricultural community can restore the confidence of our farmers and ranchers in international trade negotiations and secure their support for ambitious trade liberalization. The Task Force believes agricultural leaders must redouble

The Importance of Export Markets to U.S. Agriculture

Global markets are vital to the economic well-being of our farmers and to our standard of living. The percentage of U.S. agricultural goods exported is twice that of exports for the overall U.S economy. During the mid-1990s, 26 to 30 percent of overall U.S. agricultural output (measured as export value divided by farm cash receipts) went to overseas markets. Bulk commodities have been highly export dependent, with nearly one-half of wheat and rice crops; one-third of soybean, tobacco, and cotton production; and 20 percent of corn crops going overseas. More recent growth in export sales of high-value products, including fruits, vegetables, and animal products, have outpaced domestic sales by a wide margin, with many approaching, reaching, and even exceeding the levels of export dependency for bulk commodities.

Despite expanding domestic demand, export markets, especially access to new markets, will be of critical importance to U.S. agriculture. Growth in productivity will continue to increase supplies. Global competition and market distortions may also continue to put downward pressure on prices in existing markets. With 96 percent of the world's consumers living outside the United States, the projected increase in global demand represents an enormous opportunity for the future growth of U.S. agriculture.

Source: USDA Foreign Agriculture Service Fact Sheet: The Importance of Agricultural Trade, February 2006.

their efforts to educate, explain, and debate the issues surrounding the unprecedented opportunity that growth in foreign markets represents and that can only be achieved through successful international trade talks.

As part of the debate, agricultural leaders must emphasize that if we want to take advantage of this extraordinary opportunity, we must not only expect concessions from others, but be willing to open our own markets, including those currently benefiting from significant trade-distorting protection. Here, having a system of domestic supports that is carefully conceived and well understood will be vital.

The Task Force believes that Trade Promotion Authority should be renewed by Congress.

The Task Force believes the president must have Trade Promotion Authority in order to conduct trade negotiations. This authority, which grants the president the power to negotiate international trade agreements and only gives Congress the approval to vote up or down without amending the agreements, is set to expire in July 2007. Given that resuscitated multilateral trade negotiations would likely extend beyond this date, it will be critical to renew this act and thereby give other nations confidence that a negotiated agreement will not be subject to subsequent renegotiation.

The Task Force believes it is in our interest to reform export assistance programs to comply with WTO rules.

Up to now, the United States has tried to directly increase the competitiveness of its agricultural exports through export assistance programs. Stronger international trade rules will reduce the role of these programs and require changes in them. Use of export subsidies was banned by the Kennedy Round of trade negotiations in the mid-1960s for all sectors except agriculture.

Current export assistance programs fall under several categories, including explicit export subsidies, export credit guarantees, and market promotion programs. The United States has not used its export subsidies except for dairy in recent years, and even dairy product exports are sometimes made commercially without subsidies because of prevailing high world market prices. Further, it is likely that any eventual Doha Round agreement will result in elimination of all export subsidies for agricultural exports. The Task Force

believes we must be ready to negotiate their total elimination when, as we hope, Doha Round discussions resume.

Export credit guarantee programs are also undergoing modification. Under these programs, the Department of Agriculture guarantees repayment to U.S. banks that provide credit to finance foreign purchases of U.S. agricultural products. Government-supported export credits for industrial products that are more generous than normal commercial rates have been banned under the WTO for many years in order to prevent unfair advantage. The case won by Brazil on cotton, as mentioned in Chapter I, has already led to the adjustment in terms of the affected USDA programs. However, more changes are needed to comply with WTO rules. The main restriction for export assistance programs in the Doha Round is expected to be a limit on the term of loan guarantees to no more than six months. The farm bill should make the necessary changes in these programs.

The Task Force believes that public investment in research should be increased and that funds should be provided on a competitive basis rather than distributed on a formula basis or earmarked for specific institutions or research projects.

The Task Force proposes that a total goal of 20 percent of the funds currently dedicated under the agricultural baseline for trade-distorting domestic support programs be redirected to investments in public goods such as infrastructure and research as part of the blend of green box–compliant approaches we are proposing to replace these obsolete programs (see Chapter IV). This would be in addition to resources dedicated to investments in public goods for conservation.

In order to rebuild some of the United States' competitive advantages that are currently eroding, resources must be shifted away from direct support payments to individual producers linked to the production and/or prices of specific commodities and applied to broader investments in public goods. Research is one of these critical areas. Public investments in agricultural research have been shown to generate some of the highest rates of return from any area of public investment—approximately 30 to 60 percent per year.

In recent years, research spending for agriculture has shifted heavily from the public to the private sector. While spending by private companies is a great boon to American agriculture, it leaves important gaps in basic research and applied areas that declining levels of public investment are failing to fill. In addition, more and more public monies that are being devoted to agricultural research

are earmarked in the appropriations process for specific universities or institutions. This undermines the efficiency of the research that is funded. The Task Force believes that over time research funding needs to be increased and made available on a competitive basis. This model of competitive grants should be applied universally to all the "public goods" initiatives identified in this report, whether for research or infrastructure improvement. Political "earmarking," a process that designates funds to be spent on specific, named projects, must be avoided. Funding should focus on basic research that can be applied broadly, including the means to adapt basic research to varying local conditions and graduate student training. Collaboration should be encouraged between researchers at land-grant universities and those at Historically Black Colleges and Universities (HBCUs) and Hispanic-Serving Institutions (HSIs) in order to increase the competitiveness of proposals from the latter groups.

One area in which research holds promise is development of new bioproducts (see *The Promise of Biotechnology*, below). It is estimated that over 400 plant-based pharmaceutical products are

The Promise of Biotechnology

The United States has emerged as the world leader in the rapidly growing biotechnology industry, in which agriculture plays an important part. Most plant-oriented research and application have focused on gene transfer to enhance crops. These include increased yields, protein, and nutrients; resistance to drought, pests, and diseases; and other advantages. In recent years animal research has produced the first clones, and experiments with plant-based production of pharmaceuticals is also a burgeoning field.

Generally speaking, biotechnology in agriculture is becoming rapidly institutionalized. Farmers want biotech varieties of crops because they reduce the cost of production and have environmental benefits such as reducing energy and pesticide use. USDA has recently estimated that 61 percent of corn and 89 percent of soybeans were produced from biotech varieties. Argentina experienced even faster adoption by farmers than the United States, and the technology is catching on quickly in China, Brazil, Australia, India, and other countries. Even in Europe, where the use of genetically modified organisms (GMOs) has generated wide skepticism among the public, the worst of the controversy seems to have passed due to the careful use of labeling. In addition, the World Trade Organization recently ruled in favor of a U.S. challenge of the European Union moratorium on approvals of agricultural crops derived from biotechnology. The U.S. public has generally been accepting of biotech foods. By some estimates, 70 percent of processed products on grocery shelves contain some biotech ingredient.

Source: "The Promise of Biotechnology," Economic Perspectives, (U.S. Department of State) Volume 10, Number 4, October 2005.

currently under development. These, along with products of agricultural biotechnology that have specific differentiating characteristics like protein or nutrient content, are high-value products, often grown under contract, whose identity must be preserved through the marketing channels. These products, together with other specialty crops such as esoteric fruits and vegetables, create opportunities for medium-sized farms, which might not be competitive with larger farms in growing bulk commodities, to thrive.

To address the transportation infrastructure, the Task Force urges better coordination of both national policy and investment, particularly in waterways. Public sector investment will play a critical role in addressing gaps in our transportation infrastructure, particularly as demands on our river locks and rail system continue to increase.

Transportation costs play as important a role in competitiveness as production costs and import tariffs. Cheaper, more efficient transportation can lower the cost of farm produce to consumers as much as lowering trade barriers. Yet the United States has never had a national transportation policy that brings together all areas of transportation, including road, rail, water, and air. Given the diverse impacts of individual sectors, development of a unified policy is critical. Road construction, for example, is often driven by the needs of urban and suburban citizens and can promote urban sprawl at the cost of valuable farmland.

Government investment in waterways has lagged greatly and needs to be restored. At the same time, investment by the private sector railroads is increasingly shifting to meet the demands of sectors other than agriculture, leaving the farm community underserved. Many producers find they have only a single option for shipping their goods and have difficulties scheduling shipments. In sparsely populated areas, many of the investments that are needed will not produce rates of return that are sufficient to motivate the private sector to undertake these initiatives. Public sector investment will thus need to play a critical role in addressing gaps in our transportation infrastructure.

Infrastructure: Crisis on the Waterways

The U.S. Army Corps of Engineers maintains more than 12,000 miles of navigable inland waterways with 257 locks. Barge transportation on these rivers and canals is highly efficient, with a per-ton mile cost that is one-half that of rail and one-tenth that of trucks. For maintenance, parts of the waterways demand occasional dredging and locks need replacement or rehabilitation due to wear. Today, 50 percent of the locks are older than their estimated fifty-year life span, including thirty constructed in the nineteenth century. The backlog in needed repairs is estimated at $600 million. The Inland Waterways Trust Fund, financed by a tax on commercial users, pays one-half the cost of construction, rehabilitation, and maintenance. In FY2005 the trust fund collected $91 million and earned $15 million in interest. In FY2006 the Army Corps of Engineers plans to spend $394 million on maintenance, which will not reduce the repair backlog. Spending the trust fund's accumulated balance of $228 million would be a first step in working down the backlog of needed repairs. But additional appropriations are also needed.

Source: American Society of Civil Engineers.

The Task Force urges reform of immigration laws that affect the farm and food sectors.

Immigrants today play a vital role in nearly every aspect of our agricultural and food processing system, often taking jobs that are low-paying or shunned by native-born workers. Examples include Hmong poultry producers in the Ozarks, Hispanic workers in the meat processing plants of the Great Plains states, and milkers on dairy farms all over the country. Immigrants from countless countries work in the food processing and service industries of our cities. As the United States considers immigration reform, the Task Force believes the role of immigrants in agriculture must receive careful attention. It is vital to the sector's competitiveness to be able to find sufficient labor at fair and livable wage scales. This will likely necessitate a continued dependence on immigrant workers. The Task Force urges the enactment of comprehensive legislation to reform American immigration laws by creating an earned legalization approach that enables the existing undocumented population to gain legal status in the United States and a properly structured temporary worker program to fill future labor market needs while enhancing homeland security. (These concepts are explored more fully in The Chicago Council on Foreign Relations* Immigration Task Force report *Keeping the Promise: Immigration Proposals from the Heartland,* June 10, 2004.)

* Now called The Chicago Council on Global Affairs.

Chapter IV
A New Regime for Domestic Support

Fundamental change is needed in U.S. domestic support programs in order to enhance U.S. competitiveness and serve a broader range of U.S. farmers. It is time to acknowledge that while these programs have served some farmers well, they have not resolved many problems they were originally designed to alleviate. They cause production and market distortions, hamper farmers' ability to respond to changing markets, provide unequal benefits across crops and regions, and make the United States vulnerable to international litigation for violations of WTO rules. At the same time, they leave unaddressed the problems of low incomes and poverty in rural America.

Agricultural support programs have traditionally been justified as a way to provide farmers insulation against market fluctuations and to keep more small farms in business. One of the main arguments is that farms face more volatility than other businesses both because yields are subject to unpredictable weather and because agricultural prices swing more sharply in the short-to-medium term than prices of other goods. Further, some believe that individual farmers are at a competitive disadvantage because they buy and sell to much larger entities.

Large producers of program commodities and their representatives in Congress, who are strong supporters of the current commodities-focused programs, also argue that they are subject to unfair competition from countries such as those in the European Union whose farmers depend on government support for a higher percentage of their income compared to U.S. farmers.

While current programs do in fact increase the incomes of payment recipients and provide them with some insulation against market fluctuations and distortions, the drawbacks of these programs in their present form hinder our ability to respond to new needs in today's dramatically changing agricultural environment. Some programs create an illusion of competitiveness, while hindering the sector from responding to market change. Marketing loan programs, for example, may hold down prices and encourage overproduction due to artificially high price guarantees. Farmers may find these guarantees more attractive than shifting to other crops despite market indications that these crops are in higher demand.

In fact, the impact of farm programs on the well-being of farm households continues to decline because they serve a much smaller

Structure of U.S. Agriculture

The structure of American farming today is much different than through most of the country's history. A century ago, more than 40 percent of the nation's workforce was still employed on farm; today the figure is around 2 percent. The Economic Research Service (ERS) of USDA categorizes these farms into three main types: commercial, intermediate, and rural residence.* About 8 percent of farms are commercial farms (gross sales above $250,000). They account for the majority of farm output. Intermediate farms have sales of less than $250,000 and account for roughly 30 percent of farms. Farming is the main source of income on intermediate farms. More than 60 percent of farms are defined as rural residence farms, but they account for a very small share of total farm output. Farming income is secondary to nonfarm sources of income on rural residence farms.

In 2003 commercial farms received a disproportionate share of federal farm program payments. That year they represented 9 percent of total farms but received 51 percent of all payments. However, even among commercial farms, payments are unevenly distributed. Many large farms produce fruits and vegetables or livestock, products that are not included in the commodity program. In 2003 approximately one-third of farm program payments were distributed to intermediate farms, while 17 percent went to rural residence farms."

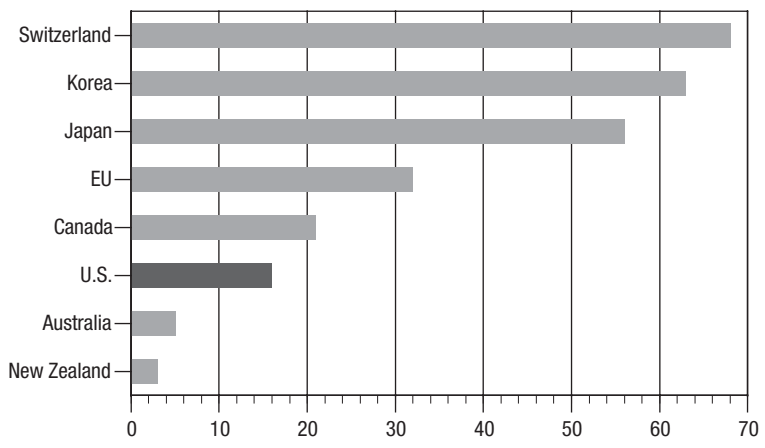
**Problems with definitions of a "farm"*
The Congress defines a farm as any place from which agricultural production valued at $1,000 or more is or could be sold annually. This definition, last revised in 1975, has profound implications for agricultural statistics. It increases total farm numbers by over one million units by continuing to count rural residence farms as farms, even though most of these smallest operations are not organized to earn a living from agriculture and have negative earnings from farming activities. Statistics based on the "average farm" are not useful in designing policy for farms that are in business to provide their operators' primary source of family income.

Source: Economic Report of the President of the United States of America, February 2006.

percentage of farmers than when they were developed in the 1930s. Commodity programs now reach less than one-half of farmers and cover only about one-third of U.S. agricultural production by value. The horticulture sector of American agriculture, largely unsubsidized, now exceeds the farmgate value of all subsidized program commodities combined (see Fig. 5).

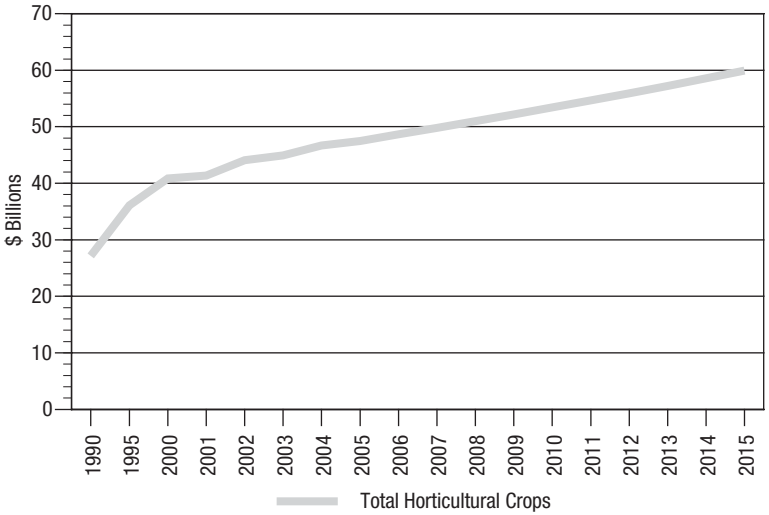
To the degree that commodity programs were intended to keep more small farms in business, they have not succeeded. The numbers of all but rural residence farms continue to decline, reflecting consolidation of farms and the dependence of rural residence farms on nonfarm sources of income. The commodity programs have, in fact, facilitated consolidation by providing liquidity, making it easier for bigger farmers to continue to buy out their smaller neighbors. They lead to the inflation of land values, which, in turn, has become an obstacle to young people who wish to become farmers at a time when the farm population is aging.

Fig. 4 OECD Producer Support Estimate by Country, 2005 (percentage)



Note: This percentage represents the portion of a farmer's income derived from government support rather than from the marketplace.
Source: Organization for Economic Cooperation and Development, Producer Support Estimate/ Consumer Support Estimate database figures, OECD Web site, 2006.

Fig. 5 USDA Agricultural Baseline Projection for Horticulture Crops to 2015



Through 2004 are actuals, 2005 on are projections.
Source: "USDA Agricultural Baseline Projections to 2015," Table 19, Baseline Report OCE-2006-1, February 2006.

Principles for Reform

The Task Force believes several principles should guide the development of new programs. First, they should be market oriented, shifting the focus away from income support and towards risk management. Second, resources need to be redirected from payments to individuals toward broader public investments that benefit the overall agricultural sector and rural communities, particularly in research, infrastructure, and conservation. Lastly, support programs need to cost less than current programs after they are fully operational, both to respond to budget pressures and to free up resources for more important uses within the agriculture budget.

The Task Force believes that current trade-distorting domestic support programs should be replaced with a blend of green box–compliant approaches such as investments in public goods and a multicommodity revenue insurance mechanism that does not distort production. The premiums paid by farmers for coverage would be partially subsidized, but should be actuarially sound, i.e., premiums should cover costs above the subsidy level.

At the same time, a smooth transition is critical. Farmers and farmland owners must be given a clear definition of future agricultural policy and—in the context of current programs—access to specific measures to cushion adjustment. For example, government payments to producers of program commodities have been capitalized into land values (i.e., land values have increased as a result of expected crop support payments). The Task Force's proposed non-trade-distorting support alternatives and transition measures would provide producers with workable solutions as they adapt to change.

The well-being of the food and agricultural system as well as the health of rural communities will require more investment in infrastructure, research, education, and a number of other areas. This can only come from a shift of resources from direct payments and producer subsidy programs to investment in public goods.

Adjustments in U.S. policy should begin with the enactment of the new 2007 farm bill. The sector's self-interest in reform is too great to postpone it until the Doha Round results are concrete. Further, we risk losing policy tools through litigation under current Uruguay Round rules if we delay. Clearly, it takes time to properly develop and refine programs associated with such a major change. The timetable should be to move all farmers from current commodity programs to new programs over the five-year period of the 2007 farm bill.

Fig. 6 USDA Commodity Credit Corporation - Spending on Program Commodities (Net Outlays)

(Millions of dollars)	Fiscal year				
Commodity/Program	2003	2004	2005	2006E	2007E
Feed grains: Corn	1,415	2,504	6,243	9,337	7,374
Total feed grains	1,572	2,841	6,813	10,034	7,889
Wheat and products	1,118	1,173	1,232	1,149	1,722
Rice	1,279	1,130	473	603	532
Upland cotton	2,889	1,372	4,245	3,096	2,820
Dairy	2,494	295	-95	386	414
Soybeans	907	595	1,140	343	1,847
Total for all commodities*	17,425	10,575	20,187	21,257	20,231

*Totals do not add up because not all commodities are listed here.
Source: USDA Agriculture Outlook, Economic Research Service, February 2006.

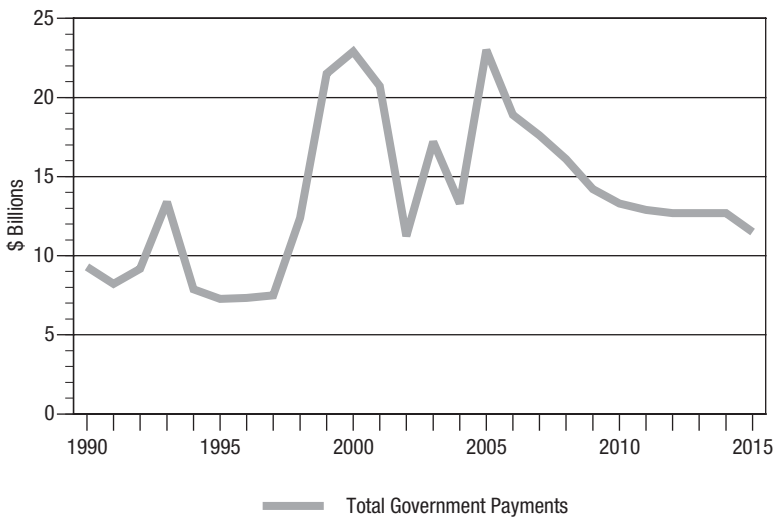
New Forms of Domestic Producer Support

The Task Force believes the current trade-distorting domestic support programs must be eliminated in favor of a new blend of green box approaches.

In addition to the limitations of current programs as discussed above, it is clear that several trade-distorting features of our current domestic support system do not pass review under world trade rules. Loan deficiency payments, countercyclical payments, price supports, and other U.S. domestic support programs are trade distorting and fall outside the parameters of the WTO green box. Spending on these programs is likely far higher than limits that may eventually be negotiated in a future multilateral trade process. It is time to cut U.S. dependence on these programs and redirect their funding to new programs suitable for the future. The Task Force sees six principal elements of a new blend of green box approaches:

1. *Direct payments:* A system of direct payments to farmers that is fully delinked from production decisions and market conditions would be included only as a transitional measure until other approaches are fully developed. The 1990 and 1996 farm bills moved in this direction, but the 2002 farm bill reduced

Fig. 7 Government Payments to Farms, 1990-2015



Source: "USDA Agricultural Baseline Projections to 2015," Table 29, Baseline Report OCE-2006-1, February 2006.

compliance with WTO green box rules. These programs must be adjusted to make the decoupling complete, or they will continue to remain vulnerable in WTO litigation and be a drag on the sector's overall global competitiveness.

2. *Multicommodity revenue insurance:* Revenue insurance can provide an equitable safety net to all farmers and not just those producing a handful of program commodities. Properly designed, it intrudes less in markets and is therefore less distortive. Because revenue insurance does not keep producers tied to specific commodities year after year, it encourages entrepreneurship. While current federal crop insurance programs in the United States have not been considered green box primarily because they are largely crop-specific, a multicommodity program would overcome this hurdle. The program would be open to all farmers, and it would reward increased production. Farmers with more revenue would buy larger policies and receive more of the program benefits.

   Multicommodity or "whole farm" revenue insurance is available today. The Canadian Agriculture Income Stabilization Program (CAIS), with fifteen years of history behind it, is one illustration (see *Canadian Agriculture Income Stabilization*

Program, below). The USDA Risk Management Agency's current pilot Adjusted Gross Revenue program, AGR, is another (see *USDA's Adjusted Gross Revenue Insurance Program,* page 41).

Several implementation issues will have to be considered by Congress in designing this program, including minimizing complexity, determining a proper range of yield/revenue guarantees, deciding on the optimal delivery system, among others. A reference period against which to measure income fluctuation (CAIS uses five years) would need to be developed along with a reference locale, i.e., individual farm, county, or other defined area, for measuring income fluctuation. In all of these decisions, consideration would need to be given to the tradeoff between simplicity and choice.

3. *Conservation incentives:* An enhanced Conservation Security Program, described more fully in Chapter VI, would reward stewardship with an income stream for farmers taking concrete steps to preserve or enhance land, air, and water quality in a given year. In areas away from urban development pressures, this might additionally soften downward pressure on land values caused by the removal of current commodity-based payments that have been capitalized into land values.

Canadian Agriculture Income Stabilization Program (CAIS)

The Canadian Agriculture Income Stabilization Program (CAIS) is a radical departure from conventional commodity support or crop insurance programs. CAIS is structured as a revenue insurance program that is intended to cushion sharp year-to-year declines in farmers' incomes.

The CAIS program allows farmers to purchase insurance against a major drop in current-year farm income as measured against the average of the past five years. CAIS measures the difference in a farm's "allowable income" and its "allowable expenses" in a given fiscal year and then compares the current year's net revenue to the previous five-year time average. Payments are based on the drop in farm income in the current year below the average. Farmers who participate in the program deposit funds into a certified CAIS account that is held in trust for them as a payment for the insurance they purchase. If the farmer is due payments at the end of the crop year, he draws first from his own account. The Canadian government makes payments if the farmer is due more than the amount in his/her account.

Source: USDA Economic Research Service.

USDA's Adjusted Gross Revenue Insurance Program

USDA's Risk Management Agency introduced on a pilot basis an Adjusted Gross Revenue (AGR) insurance program early in 2001 that provides protection against low revenue due to unavoidable natural disasters and market fluctuations that occur during the insurance year. AGR, which uses a five-year base period, covers crops, animals and animal products, and aquaculture. It shares some elements with Canada's CAIS. Several coverage levels are available, ranging from 65 to 80 percent of base-period revenue, with payment rates of 75 or 90 percent of each dollar of loss. AGR provides coverage for multiple commodities in a single insurance product. Like CAIS, much of the documentation comes from existing tax filings; in AGR's case this is Form 1040 Schedule F.

AGR is available on a pilot basis to all farmers in eight smaller U.S. states and to farmers in selected counties in ten other states. It does not, however, provide a test of a single, stand-alone, whole revenue insurance program since an eligibility requirement is participation in a separate federal crop insurance program, if available, when more than 50 percent of expected revenue is from insurable crops.

Source: Risk Management Agency Fact Sheet.

4. *Farmer savings accounts:* Farmer savings accounts would be similar in structure to tax-deferred 401(k) accounts. They would be backed by government matching contributions and could be tapped by farmers for a variety uses, including farm household costs, health care, education, or retirement. Matching payments for individual contributions could be designed to meet specific needs of a particular farm family. Farmers nearing retirement might elect payments into a 401(k), while younger farmers might opt for payment into a health account.

5. *Public goods:* A portion of the budget resources made available by the elimination of trade-distorting programs should be redirected for the "public good" initiatives that the Task Force has outlined in this report (see Chapter III) related to research and infrastructure. These initiatives benefit the entire farm community and the broader public as well as improve profitability just as surely as direct payments. To assure that this priority is highlighted in the transition process, the Task Force recommends that a target of not less that 20 percent of the funds made available for new programs be devoted to these public good projects. This would be in addition to the federal funds spent on public goods for conservation such as the enhanced Conservation Security Program already mentioned.

6. *Transition measures:* During the change from trade-distorting to green box–compliant programs, Congress should consider using available budget resources to provide appropriate economic buffers to protect investments farmers have made under the old programs in land, capital, and contractual commitments. For producers of program commodities, for instance, Congress should consider some form of compensation for "program rents," or the expectations of future government payments that have been built into land (and dairy cow) values. These transition steps could take the form of (a) direct buyouts, (b) buyouts targeted at development rights, (c) options for farmers to idle their land temporarily or sell out at values related to agricultural productivity alone, or (d) other innovative noncash approaches.

   Future federal budgets must continue their commitment to farming and rural America. Faced with a major change in the primary support mechanism for domestic agriculture, farmers need and deserve a clear signal about the level of support they can expect to receive in future years.

The Task Force believes that agriculture must recognize that it will be called on in the future to contribute to the reduction in the federal budget deficit. It believes that spending on the programs laid out in this report will achieve more with less. In addition, the Task Force's proposed expenditures will be more transparent and will benefit all farmers, not just producers of a small group of program commodities. Together, these factors should enhance public support for agricultural programs.

Chapter V
Balancing Hunger and Nutrition

With origins going back more than a century, the federal government's domestic food and nutrition programs were developed to reach the nation's neediest citizens and ensure that no one went hungry in America. While addressing hunger is still a key mission for the programs, nutrition, too, has become a critical issue among the population. Obesity, diabetes, and other health problems linked to nutritional imbalances are reaching epidemic proportions. Improved diets can have a significant impact on health and should be an integral component of efforts to feed the needy.

Problems

Domestic feeding programs, which cost roughly $51 billion, comprise over half of the USDA budget. They serve close to one-half of infants and one-in-five Americans during an average year. Administered under the USDA's Food, Nutrition, and Consumer Services mission area, they include, among others, the Food Stamp Program, which alone reaches some twenty-five million people; the Women, Infants, and Children Program (WIC), which serves 8.2 million; the National School Lunch and Breakfast Program, which serves 14.6 million; the Expanded Food and Nutrition Educational Program (EFNEP); the Summer Food Service Program; the Child and Adult Care Food Program; Food Assistance for Disaster Relief; and five different in-kind food distribution programs. These are in addition to recently developed hybrid programs, some implemented at the state level. The WIC and Senior Farmers' Market Nutrition programs, for example, provide resources for some three million low-income recipients to purchase healthy fruits and vegetables at farmers' markets and roadside stands from some 21,000 small farmers.

Together, these programs have achieved considerable success in reaching needy citizens, augmenting their purchasing power for food. Nonetheless, hunger persists in the country, and approximately twenty-five million people use private food pantries.

Current programs stress access to food over nutrition. The Food Stamp Program has adopted freedom of choice for clients as policy and has not effectively related the program, for example, to nutrition as embodied in USDA's Dietary Guidelines for Americans. Educational programs by the Food and Nutrition Service and Extension Service

have been sizable, but have had limited effect, even as dietary-related health problems have grown. Studies have shown that diets of most Americans are low in certain food groups, particularly fruits and vegetables. This is particularly true among the poor. Additionally, recent reports of the Institute of Medicine of the National Academy of Sciences have focused concerns on the problems of childhood obesity and the need to address it through improved diet.

Often, these nutritional problems are exacerbated by geography and economics. Fruits and vegetables, for instance, are often expensive and hard to find in inner cities, poorer communities, and less economically developed regions of the country. In addition, political pressure from commodity-producer groups often results in program administrators including or favoring their products in various feeding programs, even though this may cause an imbalance in the food mix relative to the dietary guidelines.[1]

Refocusing Feeding Programs

The Task Force believes that domestic feeding programs should be centered around two principles:

1. Programs should focus not just on providing food, but be directly related to nutritional goals that improve health.

2. Innovative approaches are needed to reach segments of the population that have been missed by the major federal programs.

In recent years, additional aspects of the hunger problem have gained prominence as health issues like obesity and diabetes have become national crises. The Task Force believes the time has come to focus our domestic feeding programs not just on providing an adequate supply of foodstuffs to fulfill their hunger mandates, but on encouraging clients to consume a healthy and nutritionally balanced diet. The Task Force's recommendations would refocus feeding programs on sound nutrition, stressing positive market incentives and educational efforts to the degree possible. In order for these and other needed program improvements to be successfully implemented, leadership and support from the Food and Nutrition Service at the federal level will be essential, and Congress must consider resource needs not only at the state and local level, but at the federal level as well.

1. See, for instance, its recent reports: "Progress in Preventing Childhood Obesity: Focus on Industry—Brief Summary: Institute of Medicine Regional Symposium," April 7, 2006, and "WIC Food Packages: Time for a Change," April 2005.

While acknowledging the efforts of the Food and Nutrition Service, the Task Force recognizes that federal programs miss some of our most vulnerable citizens and that local organizations with a neighborhood focus can often supplement federal efforts and reach additional citizens. Efforts led by nonprofits need to be encouraged and expanded, and reforms in nutrition and feeding programs should be made governmentwide, not just to those within the scope of the farm bill.

Introducing Nutritional Goals

The Task Force recommends linking the major federal feeding programs to nutritional goals as outlined in USDA's dietary guidelines in order to improve health.

The Women, Infants, and Children Program (WIC)

Good nutrition is nowhere more essential than for expecting mothers and young children. The Task Force believes that the recently issued regulations on the current WIC commodity allocation need to be finalized to add fruits and vegetables as an eligible category. This significant change in the WIC food package would help bring it into alignment with the USDA dietary guidelines and recommendations of the Institute of Medicine. Some products, for example, those high in fats, should be reduced, while others such as fruits and vegetables should be increased.

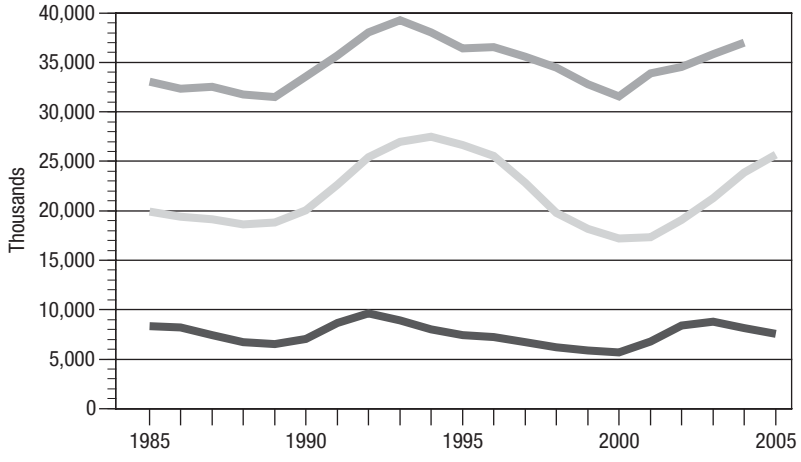
The Task Force also sees scope for other reforms of the WIC Program. We encourage exploring the potential for maximizing the use of electronic benefits transfer (EBT) cards, or identification cards that debit purchases directly from an eligible participant's account under the program, just like a bank debit card. This would involve a more complicated technical process than the one utilized by food stamp EBT cards, as the WIC program must keep track of quantities used for multiple foods as well as the amount of each food that remains available to be purchased by the participant.

Food Stamps

Up to now, the administrative philosophy of freedom of choice in food selection has prevailed in the Food Stamp Program. Food stamp clients, like other Americans, often opt for a market basket that is high in fats and calories and low in fruits and vegetables. The Task Force believes that changes are needed when public resources are used to support a diet that leads to expensive health problems in the future.

Food stamp use should be linked to the dietary guidelines. To start with, the least nutritious foods should be made ineligible for food stamp coverage. Beyond this, we recommend that market incentives be used to encourage the consumption of foods that are typically underconsumed by food stamp recipients, like fruits and vegetables. By the same token, "empty-calorie" foods should be discouraged. Technology exists to multiply the value of food stamps at

Fig. 8 Food Stamp Usage Trends



*Annual Value
†Average Monthly Values, Source: Food and Nutrition Service
‡Average Monthly Values, Source: Bureau of Labor Statistics
Source: "Poverty in tahe United States," U.S. Census Bureau Report, 2004.

the point of checkout when highly nutritious but underconsumed foods are purchased, and to decrease their value when applied to the purchase of less healthy foods such as high-sodium/low-nutrition snack foods. Implementation for this will likely need to involve rigorous testing of various approaches to incentivize consumption of nutritious foods as well as provide focused nutrition education.

The School Lunch and Breakfast Program

The School Lunch and Breakfast Program should also reward sound dietary practices. The Healthier U.S. School Challenge, a program established in October 2004 to encourage elementary schools to support healthy eating and physical activity, already recognizes those schools that provide their students with nutritive meals with non-monetary silver and gold awards. The Task Force believes the time has come to go further and adjust the level of the federal per-meal subsidy to reward good nutrition. Schools that reflect the dietary guidelines in their meals and ban products with low-nutritive value from vending machines would receive higher subsidies, while payments would be lowered for those schools that did not. We recognize that many school districts, and even some states, are moving in this direction already.

Section 32 Funding

During the upcoming farm bill debate, funding options for food purchases for vulnerable populations and school feeding programs will be discussed. One of these options is known as "Section 32" funding sourced from allocated tariff receipts on imported foods. The Section 32 program was created initially to augment demand for nonprogram commodities experiencing surplus or market disruption, primarily fruits and vegetables. Section 32 has been used extensively to pay for direct purchases of farm products and commodities for use in school lunch and other domestic feeding programs. Section 32 funds have also been tapped in recent years to support livestock operations impacted by drought, an unusual use that diverts Section 32 funds from addressing key nutrition issues, particularly for school children.

The Task Force believes that the Section 32 program should be refocused to put nutrition first. Purchase decisions should be made by administrators of the feeding programs, and the purchase of commodities under Section 32 should be made based on nutritional

goals, i.e., a balanced basket reflecting program needs. Section 32 funding should be subject to the same nutritional disciplines and guidelines that apply to all resources under the feeding programs. As an example, Section 32 funding could be used to expand the fruit and vegetable program, providing free produce to schools successfully piloted under provisions of the 2002 farm bill.

The Task Force recommends that a secure resource base be provided for USDA's Emergency Food Assistance Program (TEFAP) and other feeding programs that move through private voluntary organizations (PVOs).

Several domestic feeding programs like TEFAP provide commodities to private voluntary organizations for use in programs such as the food pantry system. These organizations often have a community focus and are able to target vulnerable people missed by national efforts. They also tend to be innovative in the ways they deliver meals, reaching the homeless and others who would otherwise be neglected.

Unfortunately, the inconsistent nature of surplus commodities poses serious problems for these private efforts. Most obviously, resources are irregular. Further, the agencies often expand their administrative capacity to distribute supplies of surplus foods, only to find that months later they must cut back when the supplies disappear. Private voluntary groups should be able to count on a stable supply of commodities to operate these important programs, ensuring a fixed level of core support for the food pantry system around the country. The Task Force believes that current programs need to be reformed to achieve this goal.

Experimentation and Local Initiatives

As with commodity feeding programs, state- and local-level hybrid programs often develop imaginative solutions to address needs that national programs cannot target. Hybrid programs can take a variety of forms: for instance, partnerships between schools and farmers' markets; linkages between farmers' marketing cooperatives and urban purchasing co-ops and food banks, or use of EBT cards in nontraditional markets such as farmers' markets or local food stands. Where experimental programs along these lines are under way, they should be nurtured.

Chapter VI
Safeguarding Land and Water

Farmers and ranchers are the stewards of almost one-half of the national land surface of the United States (2.3 billion acres), including 442 million acres of cropland (19.5%) and 587 million acres of grassland, pasture, and range (25.9%). Agriculture is also the largest user of fresh water in the United States. Assuring the sustainability of these precious resources must be at the forefront of any agenda for agriculture in the twenty-first century. Land and water are the basic ingredients of all food production, and agriculture has a special responsibility to help assure the plentiful availability and quality of both.

Achieving this will be a difficult but necessary challenge. Concerns over soil erosion, pollution, the quantity and quality of water, loss of farmland, threats to wetlands and watersheds, and levels of greenhouse gases are all critical issues. As one example, a recent report by USDA's Economic Research Service notes that total U.S. cropland shrank by fourteen million acres between 1997 and 2002, reducing it to its lowest level since 1945.

Conservation and environmental protection must be a critical focus of agriculture policy today to help the sector and the nation deal with environmental challenges. For example, high productivity allows food production to be concentrated on smaller amounts of fertile, nonfragile, nonerodible land. Attention has also recently been given to the beneficial environmental role agriculture plays in carbon sequestration, the long-term storage of carbon to reduce the buildup of carbon dioxide, the principal greenhouse gas, in the atmosphere.

Fig. 9 Land Use in the United States, 2002

Land Use	Millions of Acres	Percent
Grassland (pasture and range)	587	25.9
Forest use	651	28.8
Cropland	442	19.5
Special Uses (parks, wilderness, wildlife, and related)	297	13.1
Misc. (deserts, wetlands, and barren lands)	228	10.0
Urban	60	2.7
TOTAL	2265	100

Source: USDA, Economic Research Service Web site.

Currently, there are more than twenty-five separate USDA conservation programs. Some of the largest programs focus on improving land that is in agricultural production (Environmental Quality Incentives Program, Conservation Security Program), taking sensitive land out of production (Conservation Reserve Program, Wetlands Reserve Program), and protecting active farmland and ranch land from development (Farmland and Ranch Land Protection Program).

While current conservation programs, as mandated in the conservation title of the last U.S. farm bill, have enhanced land productivity and protected some of the most environmentally sensitive land, the programs are fragmented and lack a broader vision. They are ill-equipped to address the wide range of agriculture-related environmental challenges we face.

Principles for Reform

The Task Force's discussion of conservation issues has been guided by several premises:

- The best agricultural land should be kept in production.
- Farmers' contributions to land and water quality deserve recognition as the country becomes more environmentally conscious.
- Conservation and environmental programs themselves need to be as efficient as possible.
- Where farming practices are environmentally unsound and damaging, federal conservation programs need to be improved.
- Environmental quality must be enhanced and the natural resource base protected using innovative approaches to assure these goals are given proper balance against the needs of producers to maximize their farm income.

Rewarding Stewardship

The Task Force urges the creation of a stewardship program to help reward farmers for their environmental contributions.

As part of the blend of non-trade-distorting, WTO-compliant domestic supports proposed in Chapter IV, we believe a principal ingredient must be a new land stewardship program that recognizes and rewards the value of the environmental contributions made by farmers. Based on Conservation Security legislation enacted during development of the 2002 farm bill, this new program would pay producers according to the kind and amount of environmental goods and services they provide.

The range of covered services would be broad, including conservation of soil, water, and energy; protection of soil and air quality; regeneration of plant germplasm; restoration of wetland and wildlife habitats; reduction of greenhouse gas emissions; and carbon sequestration. Practices could include soil and residue management, nutrient management, pest management, irrigation management, grazing management, wildlife habitat management, contour farming, and strip cropping, among others.

Participants would be expected to achieve real resource and environmental benefits based on approved written plans that identify targeted resources, practices, and implementation schedules. However, to qualify, farmers would not be forced to remove good land from production. Since payments would be made in exchange for the cost of stewardship initiatives that produce real environmental benefits, the program would comply with WTO rules for the green box.

Improving Program Performance

The farm bill should mandate ambitious goals for environmental performance.

The current conservation title of the farm bill provides a plethora of programs with diverse purposes and eligibility criteria (land types, producers, practices). Many of these originated at a time when the principal objective of conservation programs was to stabilize land and water resources endangered by erosion and pollution, thereby keeping threatened land in production. Today, however, there has been a shift in focus from resource development to environmental management. In addition, conservation practices such as management-intensive nutrient, pest, water, and grazing systems have emerged as priority activities to deal with the new environmental objectives.

The existing design of conservation programs is no longer adequate to address the newer goals of effective environmental management. Efforts are fragmented, lack focus, and often earmark funds for

particular constituencies rather than targeting them purposefully to achieve performance objectives. Payments today should be based on indices of environmental performance, which would further the introduction of the most effective conservation practices.

This is particularly relevant for water conservation. Shortages of clean water are becoming more frequent across the United States, and water conservation and pollution prevention will become much more difficult as climate changes. U.S. agriculture, as the largest user of fresh water, has a special responsibility in this regard. Our current commodity programs, which encourage overuse of irrigation water on program commodities, contribute substantially to inefficient usage.

The Task Force recommends that other conservation programs be consolidated and streamlined, with a goal of keeping the best land in production.

As mentioned, USDA conservation programs have multiplied over the years to include more than twenty-five programs. Each program has its own rules, regulations, eligibility requirements, ranking criteria, sign-up schedules and processes, selection criteria, priorities, planning requirements, and contract mechanisms. The multiplicity of programs and administrative procedures impairs performance, fragments efforts, and confuses farmers, ranchers, and staff charged with implementation. This fractured approach must be corrected and the programs consolidated and rationalized.

At the same time, current farm bill program spending favors the practice of land retirement (e.g., Conservation Reserve Program, Wetlands Reserve Program) in addressing environmental concerns. Depending on how it is implemented, this approach can produce the wrong results, causing farmers to take good, productive, environmentally sound land out of production. Prior to the 2002 farm bill, the proportion of spending going to land retirement was 85 percent, compared to only 15 percent for land management on working farms. The 2002 farm bill criteria reduced spending to 60 percent for land retirement and increased spending to 40 percent for conservation on working farms and ranch lands. The Task Force recommends that the 2007 farm bill continue to refocus conservation spending by directing 60 percent toward working farms and 40 percent toward conservation on lands in retirement. This shift is essential as growing domestic and international demand for food and biofuels continues to pressure our working land base.

In addition, it is neither possible nor desirable to solve environmental problems simply by taking land out of production. Land retirement should be used only where appropriate: to protect critical habitat, to restore key components of the hydrologic system, or to limit the damage to less-productive, more-erodible acres. We will only deal with agriculture's environmental challenge by improving the management of the best agricultural land, land that should stay in production.

The Task Force recommends increased spending on research, education, and technical assistance for environmental mitigation. In appropriate cases where these programs are designed to support the farm community as a whole, the Task Force proposes that a share of the 20 percent of funds devoted to public goods specified in our plan for modernizing domestic support programs be dedicated to them.

Weakness in research, education, and organization has undermined efforts to promote new conservation practices such as nutrient, pest, water, soil, and grazing management that can help improve the environmental performance of agricultural land. Conservation science is advancing rapidly, and new investment should flow to universities and nongovernmental entities as well as federal agencies based on their ability to contribute. But as discussed throughout this report, grants must be awarded competitively and political earmarks strictly avoided to ensure fairness, effectiveness, and efficient use of taxpayer funds.

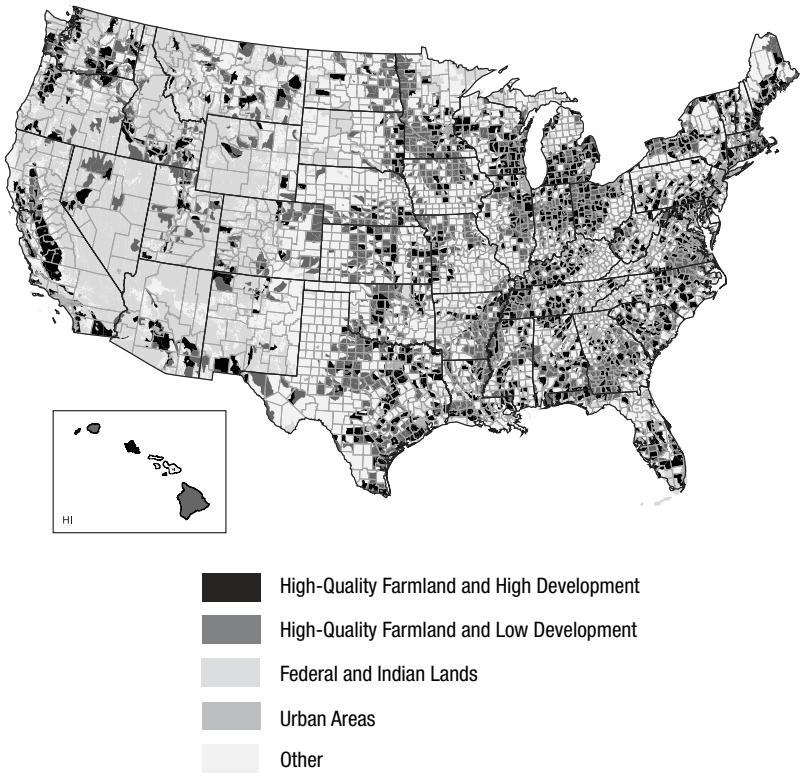
Protecting Farmland

The Task Force believes the farm bill must enable the federal government to support and encourage effective land use planning. This should be executed in part through the provision of funding incentives in support of local land use planning.

One of the greatest threats to agriculture is the loss of farmland to nonfarm use. To date, land use planning efforts to address this have been at the state and local level, with mixed results and often a dearth of resources. While few want to see the federal government supplant local efforts, there is a growing need for federal assistance.

The Task Force believes that effective land use planning must be employed to sustain farmland and ranch land, the most fundamen-

Fig. 10 Development on High-Quality Farmland



Source: "Farming on the Edge Report: Sprawling Development Threatens Farmland."
Map produced by Center for Agriculture in the Environment, American Farmland Trust.

tal agricultural assets. Even the most aggressive incentives for protecting farmland, such as the government purchase of development rights to prevent the sale of land for nonfarm development, will fall short unless they are used in conjunction with local land use planning and regulation.

Several principles should be enshrined in land use policy, beginning with compelling national need. It should be recognized that sustainability and competitiveness are dependent on an adequate supply of high-quality, productive land. Policy should encourage landowners to keep the best land in agricultural production rather than having it developed or idled. It should also encourage the most efficient use of resources in environmental programs.

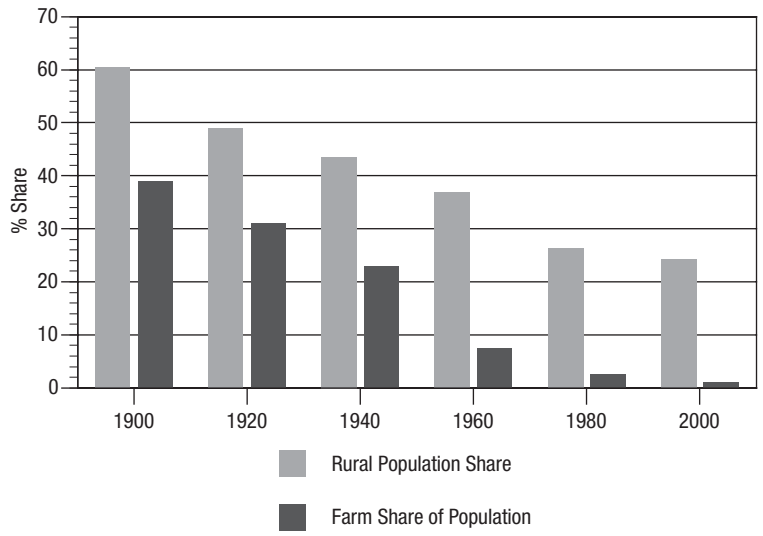
An important threat to farmland comes from the actions of federal agencies outside the Department of Agriculture. Transportation and suburban utility infrastructure construction often lead to urban and suburban sprawl that consumes farmland. The 1981 Federal Farmland Protection Policy Act, which was intended to protect farmland against unnecessary and irreversible conversion to nonagricultural uses, gives the secretary of agriculture theoretical authority to limit the adverse impact of decisions in this area by other agencies. But the law has been ineffective. The secretary of agriculture needs broader authority to enforce the Farmland Protection Policy Act in a way that ensures other federal agencies' actions do not result in farmland conversion. This could include adding the necessary enforcement mechanisms to the provisions of the Farmland Protection Policy Act.

Chapter VII
Bolstering Rural Communities

Rural America has changed dramatically over the past century. Most rural communities today no longer depend on farming as their principal generator of employment and income. In seven out of eight rural counties, manufacturing, services, and other employment are larger economic activities than farming. In fact, the majority of farmers earn the majority of their incomes from nonfarm sources. As farming has become a smaller and smaller part of the rural economy, farm households have become more reliant on a healthy local economy to find work to supplement their incomes. More than one-half of all U.S. farm operators work off-farm, and nearly 90 percent of total farm family household income in 2003 originated from off-farm sources.

Beyond the benefits that vibrant rural economies offer farmers, healthy rural communities are an important component of regional economies and the national economy, and are the keepers of some of our country's most prized natural assets.

Fig. 11 Farm and Rural Population



Source: U.S. Census Bureau and the National Agricultural Statistics Service.

Fig. 12 Full-Time Family and Commercial Farm Operator Income, 2003

	Full-Time Family Farming		Commercial Farming		Weighted Average
Average operator household income	Lower Sales	Higher Sales	Larger	Very Large	
From farming (with gov. payments)	2,209	29,390	62,327	172,147	32,870
From off-farm sources	47,226	31,195	40,078	42,282	42,497
Total	49,435	60,585	102,405	214,429	75,367

Source: Wise, Timothy, "Understanding the Farm Problem: Six Common Errors in Presenting Farms Statistics," in Tufts Global Development and Environmental Working Paper No. 05-02, March 2005.

A fundamental constraint to successful rural development is that the population and economic activity are not sufficiently dense to provide an adequate return on investment for the private sector to build transportation, communications, social, and other infrastructure. These are essential precursors for economic development. There is thus a critical role for government to facilitate economic growth and diversification by funding infrastructure development or reducing the cost of private sector investment in areas where this investment is initially unattractive.

Population loss, unemployment, and lack of adequate infrastructure have long been challenges in rural America. In the 1990s rural populations in many areas began to rebound thanks to immigration, especially of Hispanics and retirees, and rural unemployment fell to its lowest level since 1973. The benefits of these trends, however, were uneven, with many areas continuing to lose people and jobs. Decreases in manufacturing beginning in 2000, however, have hit rural areas. Industries that had been attracted to rural areas for their abundance of low-skill labor began cutting costs by eliminating jobs, transferring low-wage, labor-intensive, rural-based jobs to facilities overseas.

Some rural areas have adapted well to change and are thriving, but others face a huge challenge. In addition to population loss and unemployment, inferior services in the areas of education and health as well as lack of infrastructure and amenities are serious problems, causing a cycle of decline from which it is difficult to rebound.

The History of Rural Development Programs

Rural development programs began in the 1930s with the Resettlement Administration (RA). Tasked with assisting poor, Depression-era families to relocate, the RA also assisted farmers financially with emergency loans and payments. Later it was reorganized into the Farmers Home Administration, which provided resources to rural areas for housing, community facilities, and business opportunities, and loans to beginning and financially distressed farmers. Rural development also took the form of low-interest loans for utility development by cooperatives through the Rural Electrification Administration and later the Rural Telephone Bank.

In 1994 all rural development programs of USDA were consolidated under the Rural Development Mission Area. Its more than thirty-five programs fall into four broad categories:

1. Business and Cooperative Programs provide financial assistance and business planning services and encourage the role of cooperatives in distribution and marketing of agricultural products.
2. Housing and Community Facilities include a range of grant and loan assistance programs to encourage rural home ownership; home repairs; and aid for elderly, disabled, and low-income residents to help meet rent needs.
3. Utilities Programs have augmented the traditional focus on electricity, phones, water, and waste collection with recent initiatives in broadband Internet, distance learning, and telemedicine.
4. Community Development and Empowerment programs provide local communities with information technology and technical assistance to develop and implement strategies to create sustained economic development.

Source: "USDA marks 70th anniversary of landmark rural legislation," *Rural Cooperatives* 72, no. 4 (July/August 2005).

Problems with Current Policies

USDA rural development efforts have today evolved into more than three dozen separate programs addressing everything from business planning to housing, utilities, and community development (see *The History of Rural Development Programs,* above). These programs lack focus and coordination both inside and outside USDA. A recent Federal Reserve Bank study counted more than 180 federal programs scattered among a half dozen federal departments involved in rural development and concluded that they lacked the unity of coordinated policy objectives. The tendency has been to stress "showcase" construction projects, and "pork barrel" spending with little long-term economic impact. Ultimately, they have failed to stem the loss of population and employment in some rural counties and reverse the cycle of decline.

Many farm organizations argue that commodity-specific domestic support programs contribute heavily to rural development, but evidence does not support this. Counties receiving the highest levels of payments continue to experience some of the most rapid population loss and unemployment. In fact, because commodity program payments have been distributed largely in proportion to the size of farms, they appear to have facilitated farm consolidation and a reduction in agricultural employment in rural America.

Rationalized Rural Development Policies

The Task Force believes that three principles must underlie the achievement of a more effective policy toward rural America:

1. Identification of clearer objectives

2. Expansion of the nonfarm economic base

3. Making rural life more attractive through the provision of basic services and amenities

Clear Objectives

The Task Force recommends that the 2007 farm bill lay out clear objectives for rural development policy around two core concepts: (1) diversifying rural economies through nonfarm investment, creating nonfarm jobs, and encouraging entrepreneurship, and (2) improving the quality of rural life.

To emphasize this point, the Task Force proposes that a share of the 20 percent of funds for public goods specified in our plan for modernizing domestic support programs be dedicated to increased funding for infrastructure projects that facilitate rural development. This would make rural America more accessible and conducive to private investment.

Diversifying the economic base of rural communities should be a primary focus of lawmakers, recognizing that these communities comprise a significant portion of regional economies and the national economy. Rural communities must have an enabling environment and business climate attractive to investors. Critical infrastructure must be expanded to enhance economic opportunities, including broadband Internet access. Efforts to stimulate rural eco-

Kansas City Federal Reserve Board Report on Rural America

The Center for the Study of Rural America, part of the Kansas City Federal Reserve Board, recently released a study of economic development trends and policy in rural America. The report provides an excellent overview of what is wrong with the traditional approaches to development in rural America and what can be done to help rural America adapt to the economic changes brought by globalization. The report details the export-base model, which was the prevalent economic development theory employed in rural America from the 1950s until the late 1980s. In the export-base model, communities compete to offer business incentives and tax breaks to lure industrial employers to their communities. The report outlines how this tug-of-war between communities was and still is a zero-sum game that doesn't produce smart development. Innovation, entrepreneurship, and the creation of new economic engines are cited as core themes for future development policies. The report seeks to bolster the role of business incubators, land grant colleges, and research universities as vital links in the creation of new enterprises. By focusing on new approaches and sectors, the report seeks to push rural America away from its reliance on industry toward services, while preserving its role in the agriculture economy.

Source: A New Rural Economy: A New Role for Public Policy, Kansas City Federal Reserve Board

nomic opportunity must go well beyond the value-added processing of agricultural goods to include developing manufacturing and particularly service enterprises, e.g., tourism-based opportunities such as ecotourism or other enterprises tailored to local resources and strengths. Training and business assistance programs, for example, may help new entrepreneurs get established in rural areas.

Making rural life attractive and rewarding should also be a primary focus of rural development programs. Infrastructure development must include telecommunications that is accessible and affordable. Policy must also recognize the unique health and security needs of the countryside. It is home to a disproportionate share of elderly, and its small law enforcement agencies are confronted with a proliferation of illegal drug production and use.

In addressing both groups of objectives, resources need to be shifted into public goods that create an enabling environment for investment by the private sector and that provide more amenities and a better lifestyle. Partnerships between federal, state, and local governments as well as private entities can help mobilize the necessary resources.

Kentucky Initiatives to Diversify

State-led class action lawsuits against "Big Tobacco" in the 1990s created uncertainty about the future role of tobacco as a major commodity crop in America. This was most acutely felt in Kentucky, where a majority of farmers grew tobacco. The state government and farmers realized that the days of production quotas and high prices were numbered and that new alternatives would have to be introduced. To accomplish this, Kentucky set aside millions of dollars from the tobacco settlement and later the federal tobacco buyout program to pursue an ambitious initiative to diversify and strengthen its agricultural landscape. Centered within the Governor's Office of Agriculture Policy, the Kentucky Agriculture Development Board, in association with 120 county-level boards, sought to develop a comprehensive, forward-looking agriculture framework. Called Cultivating Rural Prosperity, this policy report outlined six core priorities that were considered essential for the future: marketing and market development, improving access to capital, financial incentives for environmental stewardship, farm family education and computer literacy, supporting local leadership, and research and development.

Since the release of the report, Kentucky has taken many steps to put its priorities into action. The Kentucky Agriculture Finance Corporation was established to fund value-added products and enterprises; the community college system has been engaged to provide business training, computer literacy, and workforce development for rural areas; and a $105 million environmental stewardship initiative to protect the Green River watershed has been undertaken with federal assistance to protect thousands of acres of farmland.

Source: Cultivating Rural Prosperity, Kentucky Agriculture Development Board

Diversifying the Rural Economy

The traditional premise that a strong farm economy means a strong rural economy no longer holds. In a globalized economy, innovation and entrepreneurship are the keys to economic growth. How can rural areas overcome the gap with urban areas in this regard, and what is the role of federal policy in closing that gap?

Rural America cannot hope to be competitive with urban America in attracting private-sector investment and creating new jobs unless it has access to broadband services. These services are critical for the success of rural communities and may help remote locations overcome some of their disadvantages. Indeed, information technology companies could set up shop in small towns, taking advantage of local labor. Access to affordable high-speed Internet is also needed to bring basic government services like education and health as close to urban standards as possible. In addition, Internet access enables residents in sparsely populated areas to take advan-

tage of distance education and telemedicine. Farmers increasingly require high-speed Internet access since many technical publications, for example, repair manuals for their equipment, are only available on the Internet.

Just as rural electrification and telephone service became a major federal effort in the 1930s and 1940s, so must broadband access now. The earlier model of cheap credit provided to local co-ops can be examined and, if necessary, modified. The farm bill must make this a priority for the utilities section of USDA's Rural Development Mission Area.

The Task Force recommends that the farm bill streamline and unify rural economic development programs to emphasize investment: grants and loans to small- and medium-sized businesses, tax incentives, and credit initiatives. New emphasis should be placed on workforce training and building upon community-developed strategies.

The problem of program fragmentation, a recurring theme in this report, appears prominently in the rural development field. This must be addressed. In addition, communities themselves need to be encouraged to identify local assets and develop growth strategies. In many cases, to achieve critical mass, broad partnerships across community and county lines will be necessary. A number of possibilities offer promise:

1. *Production of specialty crops.* Through research, marketing, and promotion, the growing sector of specialty crops, which includes both fresh and high-value products, is a possibility for some areas and producers with the necessary resources, management skills, and nearby markets.

2. *Production of renewable energy and bio-based industrial products.* Rural areas have a clear advantage in proximity to raw materials. Transportation costs for finished products have to be factored into any plans for development in this area.

3. *Expansion of processing facilities for small-scale businesses, especially to fill niche opportunities*. Incentives could encourage businesses to enlarge facilities that already exist in rural communities.

4. *Reaching new markets with existing products and services.* Technical assistance could enable farmers and rural businesses to identify and access local, regional, national, and international markets. Companies are often focused on just one or two of these levels, missing opportunities in the others.

5. *Expansion of the regional distribution infrastructure.* Improved movement of goods in and out of rural areas can improve competitiveness.

6. *Intensified focus on tourism.* Some rural areas close to population centers have become immensely popular vacation destinations, steeped in natural beauty, historical interest, and local hospitality. This creates an exciting business opportunity for those communities ready to accommodate it. Many have created museums, restored historical sites, and provided special access to natural wonders for visitors to enjoy.

The Task Force believes that an opportunity exists to revitalize cooperative activity among producers, encouraging its expansion through formation of cooperatives, limited liability companies (LLCs), or other collaborative institutional structures through which small-to-medium-sized farmers can work together to increase income.

The cooperative form of business played an important role in the development of American agriculture and many rural communities. Cooperative and other collaborative activity in rural America has traditionally focused on group sales of farm output and purchases of equipment and inputs. In recent decades numerous cooperatives, often structured differently than traditional one-member, one-vote organizations, have been formed to process agricultural products and pursue other ventures.

To encourage this nascent trend, the farm bill should develop a package of supports and incentives for cooperatives and other collaborative partnerships. The package could include technical assistance and small grants for business plans and market and feasibility studies. Loans and loan guarantees to support new collaborative structures should also be included.

Linkages between rural producing/marketing cooperatives and urban food co-ops should also be encouraged. While this may not involve large numbers of people, it could enhance income for some

farmers and improve nutrition for participating urban, low-income communities.

Improving the Quality of Rural Life

Increasingly, studies are showing that an educated and trained workforce is more important than direct economic incentives in attracting investment. At the same time, rural communities need services and amenities in areas like health and education in order to sustain a modern lifestyle and make them more attractive places to live and work. In rural America, the lack of access to the same level of basic services in health care and education that urban America takes for granted has been an important factor in the continued loss of population. Government must ensure fair access to services for rural residents. Better education will prepare rural residents to be competitive economically. Whether the focus is education, health care, law enforcement, or other services, federal departments should work to fill existing gaps and provide a standard level of amenities.

The Task Force urges a renewed emphasis on the traditional partnership between land-grant institutions and rural communities. It should include stronger linkages with community colleges and attention to rural economic development beyond agriculture.

The land-grant universities originated in the 1860s with federal government land grants that financed their establishment. They are a principal mechanism for public higher education, accessible to youth in rural regions of the country. Their original focus has broadened to encompass all fields expected in major universities. The land-grant universities have played an instrumental role in the development of rural America through their interrelated teaching, research, and extension missions, which include state extension specialists at the universities as well as a network of local or regional offices. They have contributed to raising agricultural productivity, improving nutrition, and advancing local economic development, while facilitating the social and economic mobility of rural youth. More recently, there have been many attempts by land-grant universities to broaden their commitment to state service across all of their colleges, particularly in the area of economic development.

At the same time, there has been a proliferation of applied community colleges that focus on developing job skills needed locally for economic development. The county extension office and the

community college working at the local level form a powerful duo in contributing to local economic development. We see an enormous opportunity to capitalize on these trends by strengthening the partnership between extension and community colleges to provide student and adult education for the entire range of skills needed by a modern workforce. The extension system has suffered budget-driven attrition in recent years. Federal resources should be made available to provide incentives to strengthen this partnership.

The extension system should also help rural regions become competitive in attracting industries that create more nonfarm jobs by providing skills in business plan development, business organization, identification of market opportunities, and development of mechanisms to support entrepreneurship.

Chapter VIII
Renewable Energy from Agriculture

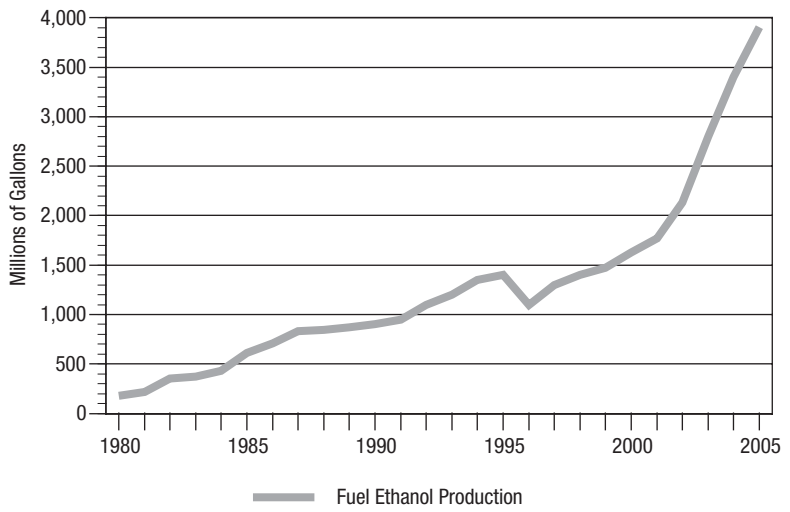
Few developments in recent years have generated the enthusiasm of the farm community like the potential production of biofuels and industrial products made from agricultural commodities. America today faces an unsustainable dependence on shrinking supplies of fossil fuel from unreliable and often hostile sources around the world. With gasoline prices topping $3 per gallon, crude oil topping $70 per barrel, and growing demand for fuel from emerging economies in China, India, and elsewhere, the cheap oil policy that has been a pillar of American economic growth for the past century is rapidly proving unsustainable. Energy from biofuels represents one of the alternatives for lessening our dependence on foreign oil, which in itself will be important for maintaining American security and economic vitality for decades to come.

Biofuels: A Growth Industry

For many farmers, especially corn producers who supply the small but rapidly growing ethanol industry, renewable fuels already have become an important market. For the first time, the farm bill passed in 2002 included an energy title. It encourages biofuel development by authorizing educational programs, cost-sharing for production facilities, use of renewable fuels by farmers themselves, and subsidies for the cost of agricultural commodities or "feedstocks" used in biofuel production. In addition, Congressional appropriations have provided tax incentives and set minimum levels for required admixture of biofuels into gasoline. The emerging domestic industry is protected from foreign competition through import tariffs on lower-cost ethanol from sugar cane. Some states also exempt gasoline-ethanol blends from all state gas taxes.

Renewable energy production in the United States today is focused on corn-based ethanol, though other forms are growing. In 2005, 14 percent of the U.S. corn crop was consumed by the ethanol industry, along with a slightly smaller share of sorghum production. As of February 2006, the annual capacity of the U.S. ethanol sector stood at 4.4 billion gallons, and plants under construction or expansion are likely to add another 2.1 billion gallons to this number. This total capacity is equivalent to approximately 150 million barrels of oil, which represents approximately one week's total for U.S. petro-

Fig. 13 Historic U.S. Fuel Ethanol Production



Source: Renewal Fuel Association Web site.

leum consumption. The Energy Policy Act of 2005 mandates the use of 7.5 billion gallons of renewable fuels by the year 2012. If based only on biofuels from corn, this would require 2.9 billion bushels of corn, or 26 percent of 2005 U.S. corn production. The current administration has also signed onto the idea of "25 by 25," a goal of supplying 25 percent of America's energy use from renewable resources by the year 2025. The "25 by 25" goal was recently endorsed by Congress through a concurrent resolution introduced in both chambers by leading members of the House and Senate agriculture committees.

The bulk of renewable fuel production will likely remain crop-based for some time, but many believe that renewable fuels ultimately will come mostly from cellulosic biomass from plants such as switch grass. Since switch grass is a perennial not requiring annual plowing and planting, it can yield a much higher net energy gain, which some researchers estimate is several times the most optimistic estimate for corn ethanol. Further, switch grass could be produced on portions of the thirty-five million acres of lower-quality land currently enrolled in the Conservation Reserve Program. The technology for cellulosic conversion to ethanol, however, is more complex and several years from commercialization. Enormous quantities of raw material are involved, so the energy cost of hauling them even short distances

is one issue. Optimistic supporters of biomass production suggest that with heavy investment in research now, technologies suitable for commercialization might be available between 2010 and 2015. They also note that biomass production can eventually be cost-competitive with petroleum at current oil price levels.

Supporting Biofuel Production

Currently, ethanol benefits from numerous forms of government support, subsidies, and import protection. Oil companies that blend ethanol with petroleum-based gasoline receive 51 cents for each gallon of ethanol used, or 5.1 cents for each gallon of end-product at the standard 90/10 blending ratio. Farmers who increase the amount of their crops devoted to ethanol production receive the equivalent of 29 to 40 percent of the processing cost for production above the previous year's level. The Energy Department also has a Biomass Program that supports the development of biomass technology.

There is considerable debate as to whether such subsidies are merited. As a comparison, other energy production sectors also benefit from government supports. These include tax incentives for oil exploration and development, the oil depletion allowance, tax incentives for electric cooperatives, tax credits for production of clean coal and certain nuclear investments, a variety of tax concessions for electric utilities, coal gasification loan guarantees, hydroelectric power production incentives, and a long list of others. Direct dollar comparisons between these and current federal supports for ethanol and other biomass industries are difficult to calculate. However, the Task Force believes that each energy production sector must ultimately prove itself viable in the commercial marketplace and be able to stand on a level playing field.

Some critics argue that the technology will never be cost-competitive with oil and that net energy gains are marginal at best or even negative. The huge quantity of land that would be needed to achieve a significant reduction in fossil fuel consumption is also an issue. With a projected doubling of world food consumption by the middle of this century, some opponents question the wisdom of using agricultural commodities for fuel that could instead be used for food. Parts of the livestock industry have expressed concern already about the use of such a large and growing portion of corn production for fuel. The answer to these criticisms likely lies in future research as well as in the present rising cost of energy from fossil fuels. In any event, the urgency of the need to reduce American national dependence on fossil fuel from hostile foreign sources places a premium on innovation and nurturing of promising new technologies.

Principles

The Task Force believes government support for renewable energy and new products should continue, with an emphasis on public investments in research. New technologies must eventually become commercially competitive so that we avoid building an industry that can exist only on the basis of long-term subsidies that are out of proportion to supports and incentives provided to other energy-producing sectors.

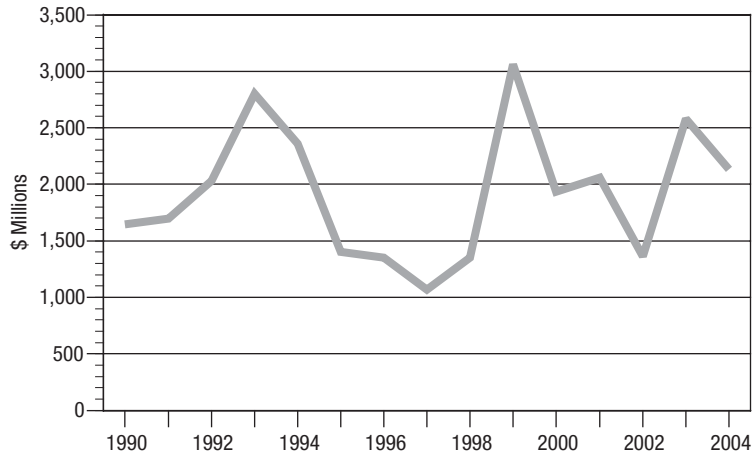
Current subsidies for development of ethanol and other biofuels, in combination with support under the Energy Policy Act of 2005, have provided a platform for getting these new industries off the ground and allowing them to mature. What is needed now is additional research on new technologies for producing usable energy from cellulose or other feedstock that can be grown on lesser-quality, but nonerodible land not suitable for future food production. This would assure that we can develop new approaches before reaching a point when demand for food outweighs demand for fuel. In the meantime, federal support programs must insist that as these biofuel industries mature and market conditions permit, companies and cooperatives benefitting from federal subsidies and import restrictions develop business models that ultimately accommodate the scaling back of such federal support to levels consistent with those given to other fuel production industries (such as the tax concessions and research support provided to oil, coal, and gas producers).

Chapter IX
Global Hunger and U.S. Food Aid

The World Food Program estimates that 840 million people suffer from hunger. Except in times of war, natural disaster, or politically imposed famine, hunger is caused by poverty. In such extraordinary situations, food aid can play an important role in reducing hunger. Chronic hunger, however, can be solved only by reducing poverty. There are 1.25 billion people in the world who live on less than one dollar per day and three billion who live on less than two dollars per day. Seventy percent of the extremely poor live in rural areas and most are farmers. Only successful economic development that both raises agricultural productivity and creates nonfarm rural employment, both in faraway cities and within commuting distance from farms, can resolve the poverty problem. While the farm bill is not the vehicle for solving all of these problems, it contains legislative language on U.S. food aid, which is an important tool for both humanitarian and developmental assistance in these troubled areas.

Food aid has long been a large part of America's overall foreign assistance efforts as well as a useful foreign policy tool. It presents

Fig. 14 U.S. Food Aid Contributions



Source: "Greenbook," U.S. Overseas Loans and Grants, 2004.

Fig. 15 Food Aid Contributions to the World Food Program (thousands of dollars)

	2000	2001	2002	2003	2004	2005	2006 (as of 7/11/06)
United States	795,676	1,201,352	933,217	1,459,624	1,064,987	1,207,672	646,892
European Union	443,129	447,294	560,575	620,460	694,329	876,986	1,397,795
Japan	260,099	90,592	92,896	130,136	135,730	160,528	14,904
All Others	1,601,393	1,240,954	1,534,013	1,846,062	2,006,088	2,589,562	1,109,877
Total	3,100,297	2,980,192	3,120,701	4,056,282	3,901,134	4,834,748	3,169,468

Source: Contributions to WFP, World Food Program Web site.

a universally understood humanitarian message in times of emergency or crisis. When people don't have enough to eat, improvements in their lives and their communities are next to impossible to accomplish. In addition, food aid provides the U.S. government with an opportunity to increase its visibility and improve America's image in the world. Last year's tsunami relief efforts in Indonesia and earthquake relief in Pakistan are prime examples of how the United States can make a positive international contribution while impacting people's attitudes toward this country.

U.S. food aid programs began as disposal mechanisms for surplus commodities, but in recent years have shifted to primarily budgeted programs that augment appropriated foreign aid by $1 to $2 billion per year. The United States is by far the largest food aid and foreign aid donor in the world in sheer dollar terms, though it lags behind most other developed countries on a per-capita basis for foreign aid. Indeed, when food emergencies arise unexpectedly, America normally contributes hundreds of millions of dollars more than other countries. It also contributes to the United Nations World Food Program, which reaches over one hundred million needy people worldwide and is the largest food distributor and humanitarian organization now operating.

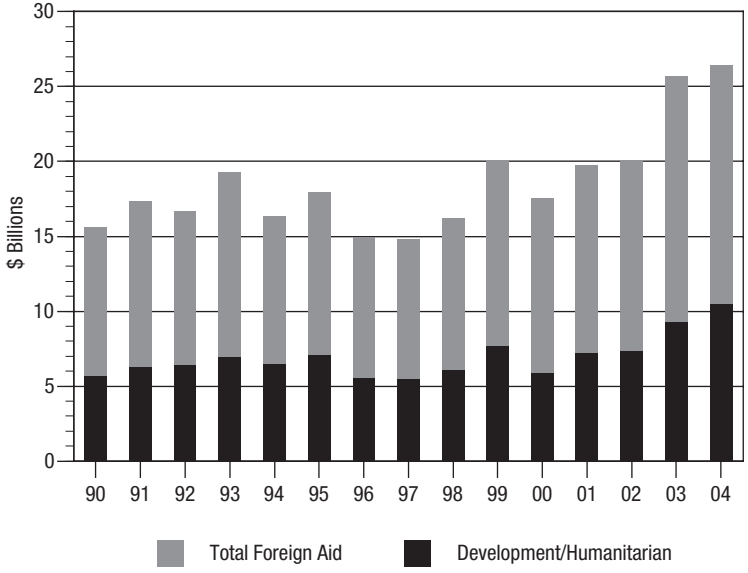
Unlike foreign aid appropriations, food aid has strong political support from a unique coalition of supporters, including private voluntary organizations, farmers, and maritime interests. This results in much larger total U.S. development assistance than would be made under foreign aid alone.

U.S. food aid can be divided into two primary categories (humanitarian, usually direct feeding, and developmental) and two

secondary categories (market development and surplus disposal). Public Law 480 (PL 480), passed in 1954 as the Agricultural Trade Development and Assistance Act, is the United States' principal food aid program. It includes three "titles," only two of which are currently funded. Title I, a concessional loan program for foreign governments, is administered by USDA, and Title II, a much larger grant food aid program, is administered by the Agency for International Development (USAID), primarily through the United Nations World Food Program and through private voluntary organizations. Title III, currently unfunded, authorizes government-to-government grants to support long-term economic development.

In addition to PL 480, USDA administers several other food aid programs. Food for Progress makes donations to private volunteer organizations (PVOs) or foreign governments for countries that are making progress in democratization and building free markets. The McGovern-Dole International Food for Education and Child Nutrition Program supports school feeding programs in countries

Fig. 16 Development/Humanitarian Aid as Compared to Total Foreign Aid, 1990-2004



Note: Total foreign aid does not include military, security, economic, or political assistance.
Source: "Foreign Aid: An Introductory Overview of U.S. Programs and Policy," Congressional Research Report for Congress, Library of Congress, April 2004.

Fig. 17 Foreign Aid Program Composition, 2004

Aid Type	Billions of Dollars
Bilateral Development	6.228
Humanitarian	2.550
Multilateral Development	1.702
Economic Political/Security	5.402
TOTAL	15.882

Note: Does not include military aid
Source: "Foreign Aid: An Introductory Overview of U.S. Programs and Policy," Congressional Research Report for Congress, Library of Congress, April 2004.

that have made a commitment to universal education. Other programs donate commodities acquired under price support programs to either foreign governments or private voluntary organizations. No new programming is being done under these, however, due to a lack of commodities being acquired under U.S. farm support programs.

A significant portion of U.S. food aid is "monetized," i.e., sold in the targeted country to produce local currency that is used for development purposes. Monetization is the most controversial of food aid practices. Large-scale U.S. use of the practice has come under attack in the Doha Round discussions. Critics argue that it can displace commercial sales, either by local farmers or other exporting countries. Proponents of monetization believe that if funding for food aid monetization were eliminated, it would be unlikely that the aid would be replaced with appropriations for development assistance. Some also believe that the private voluntary organizations that monetize food aid are allowed greater scope for innovation and experimentation in their USDA-supported programs than with USAID development assistance dollars. Food aid for monetization is provided under both PL 480 Title II and USDA's food aid programs. The Task Force recognizes that regardless of whether or not monetization exists, many of this country's private voluntary organizations do excellent work in a variety of sectors, including agricultural development. Their work should continue as one of the key efforts in reducing global poverty and achieving development goals.

There are significant inefficiencies and ample scope for reform of U.S. food aid. Costs of delivery could be greatly reduced and in-country distribution improved. Legislative language regarding the purpose of food aid also needs to be updated to reflect the fact that

our food aid is used only for emergency and economic development objectives.

Principles

Two themes have emerged as priorities for the Task Force regarding food aid: (1) improving efficiency, and (2) recasting food aid policies in the context of the Doha Round negotiations.

The Task Force believes that PL 480 Title I is obsolete. Its mandate should be eliminated and replaced by the McGovern-Dole School Feeding Program, which should then be funded under Title I.

PL 480 Title I provides concessional loans to foreign governments to purchase U.S. food aid commodities. The concessionality arises from the long repayment period and artificially low interest rate, generally amounting to about 55 percent of the cost of a commercial loan. Increasingly, however, the Title I concept is obsolete. Governments of developing countries today have a lesser role in importing to meet food needs, having passed that function to the private sector. In providing direct food assistance, international agencies and PVOs are more efficient. In addition, since World War II school feeding has had a significant impact on the development of many countries around the globe. Therefore, the Task Force believes that the current PL 480 Title I should be eliminated and replaced by the McGovern-Dole International Food for Education and Child Nutrition Program, where food aid has a positive impact on education. This program should then be funded under Title I.

The Task Force believes U.S. food aid programs can achieve greater efficiencies by shifting the burden of cargo preference funding to the Department of Defense. The resulting budget savings could then be used to purchase food aid from local producers in developing countries.

Cargo preference laws require that 75 percent of U.S. food aid commodities be shipped on U.S. flag vessels. Freight rates on the American maritime fleet are often several times the prevailing international level, meaning that a significant portion of food aid funds actually go toward subsidizing the American fleet. The common justification for this is that we enhance national security by maintaining a U.S. flag merchant marine of sufficient size. If cargo preference is to be continued as a national security objective, the Task Force believes it is much more appropriate to fund cargo preference with Department of Defense appropriations and not from the U.S. food aid budget.

Savings from this proposed funding shift should be used to purchase food from local producers in developing countries, which would have the benefit of supporting the development of local production capacity.

Farm bill language referring to food aid use for market development and surplus disposal purposes should be eliminated.

Food aid originally was used for these purposes. But in recent years, U.S. food aid has become appropriately focused on supporting critical humanitarian needs, with donations to both the World Food Program and to nonprofit groups operating to save lives in poor countries. Some food aid continues to support nongovernmental agencies' efforts in key agricultural development projects in these countries. The inaccurate references in our law exacerbate the problems we face in defending our food aid in international forums. The Task Force believes that all references to surplus disposal and market development should be stricken from food aid legislation.

Appendix A

The U.S. Position in the WTO Doha Round and Obstacles to Progress

Below are the key elements in the October 10, 2005, U.S. proposal for agriculture in the Doha Round. The Task Force agrees that these proposals represent the proper direction for these negotiations if an ambitious result is to be achieved.

Market Access

Progressive Tariff Reduction: Developed countries cut their tariffs by 55 to 90 percent. Lowest tariffs are cut by 55 percent, with cuts ranging to 90 percent for highest tariffs.

Tariff Rate Caps: Establish a "tariff cap," ensuring no tariff is higher than 75 percent.

Sensitive Products: Limit tariff lines subject to "sensitive product" exemption to 1 percent of total dutiable tariff lines. For these lines, ensure full compensation by expanding tariff-rate quotas (TRQs) where they exist and find other means to address sensitive products where TRQs are not in place.

Special Provisions for Developing Countries: Create special and differential treatment provisions for developing countries to provide real improvements in access while ensuring import-sensitive sectors in those countries are afforded appropriate protection.

Export Competition

Export Subsidies: Eliminate and henceforth ban all agricultural export subsidies.

Export Credit Programs: Establish specific disciplines on export credit programs to bring them in line with commercial practice, including a maximum repayment period of 180 days.

State Trading Enterprises (STEs): Install new disciplines on export STEs that end monopoly export privileges, prohibit export subsidies, and expand transparency obligations.

Food Aid: Establish disciplines on food aid shipments that guard against commercial displacement; remove obstacles to emergency shipments and deliveries to countries with chronic food aid needs.

Domestic Support

Overall Support: Cap and reduce overall levels of trade-distorting support by 53 percent for the United States and 75 percent for the European Union (EU).

Amber Box: Cut the cap on aggregate measurement of support (AMS) by 60 percent for the United States and 83 percent for the EU, and impose product-specific AMS caps based on the average trade-distorting support each received from 1999 to 2001.

Blue Box: Cap partially decoupled direct payments at 2.5 percent of the value of agricultural production and broaden the definition of the blue box to accommodate countercyclical payments.

De Minimis: Cut "de minimis" allowances for trade-distorting domestic support by 50 percent (from 5 percent of the value of production to 2.5 percent).

Some of the Hurdles

The EU refused to increase market access for agricultural products, which would have required accelerating the reform of the Common Agricultural Policy relative to the present timetable, which runs through 2012. They argued for a far higher percentage of tariff lines to be designated as sensitive products, shielded from reductions in tariffs as large as the negotiated formula would require.

Developing countries also resisted much market opening, arguing that they needed to protect an even higher percent of tariff lines as special products important to food security and livelihoods. They also argued for a high percent of tariff lines to be designated special products and shielded from reductions in tariffs as large as the negotiated formula would require.

Without these the United States was unwilling to offer larger reductions in the cap on its trade-distorting domestic support. Indeed, some of our negotiating partners accuse the United States of not

being willing to cut trade-distorting domestic support programs deeply enough since the base from which our cuts would be made is significantly higher than current spending levels.

Appendix B

Production of Agricultural Commodities by Country

	1990	1995	2000	2001	2002	2003	2004	2005
Corn Production (1000 metric tons)								
Argentina	7,600	11,100	15,400	14,700	15,500	15,000	20,500	14,000
Australia	205	311	345	457	310	392	312	400
Brazil	24,330	32,480	41,536	35,501	44,500	42,000	35,000	41,000
Canada	7,067	7,281	6,827	8,389	8,999	9,600	8,840	9,470
China (Peoples Republic of)	96,820	112,000	106,000	114,088	121,300	115,830	130,290	139,370
European Union*	23,523	29,096	44,529	50,142	49,360	39,876	53,478	48,318
United States	201,534	187,970	251,854	241,377	227,767	256,278	299,914	282,260
Wheat Production (1000 metric tons)								
Argentina	10,900	8,600	16,230	15,500	12,300	14,500	16,000	12,500
Australia	15,066	16,504	22,108	24,299	10,132	26,132	22,600	24,500
Brazil	3,300	1,526	1,660	3,250	2,925	5,851	5,845	4,873
Canada	32,098	24,989	26,519	20,568	16,198	23,552	25,860	26,800
China (Peoples Republic of)	98,229	102,215	99,640	93,873	90,290	86,490	91,950	97,450
European Union*	89,095	86,161	124,197	113,553	124,829	106,878	136,774	122,590
United States	74,292	59,404	60,641	53,001	43,705	63,814	58,738	57,280
Soybean Production (1000 metric tons)								
Argentina	11,500	12,430	27,800	30,000	35,500	33,000	39,000	40,500
Australia	62	73	61	76	18	74	60	70
Brazil	15,750	24,150	39,500	43,500	52,000	51,000	53,000	55,700
Canada	1,262	2,293	2,703	1,635	2,336	2,263	3,042	3,160
China (Peoples Republic of)	11,000	13,500	15,400	15,410	16,510	15,394	17,400	17,200
European Union*	n/a	939	1,188	1,309	888	633	786	862
United States	52,416	59,174	75,055	78,672	75,010	66,778	85,013	83,999

*15 nations in 1990, 1995; 25 nations since 2000.
Source: Production, Supply and Distribution tables, Foreign Agricultural Service Web site.

Appendix C

USDA Outlays by Agency (dollars in millions)

AGENCY	2003 Actual	2004 Actual	2005 Estimate	2006 Budget
Farm and Foreign Agricultural Services				
Farm Service Agency	918	773	1084	1,034
Commodity Credit Corporation Programs	17,425	10,576	24,064	19,053
Risk Management Agency	3,332	3,269	3,366	3,726
Foreign Agricultural Service	158	375	315	337
PL 480	683	1066	731	891
Rural Development				
Rural Community Advancement Program	908	907	899	842
Salaries and Expenses	131	132	148	161
Rural Utilities Service	-2,703	-2,174	-1,052	-808
Rural Housing Service	185	507	-84	149
Rural Business - Cooperative Service	34	24	119	3
Rural Empowerment Zones/Enterprise Communities	13	14	15	16
Food, Nutrition, and Consumer Services	41,095	44,990	51,795	55,876
Natural Resources and Environment				
National Resources Conservation Service	1,873	3,046	2,924	2,763
Forest Service	5,150	5,174	5,580	5,361
Food Safety	735	779	822	859
Research, Education, and Economics	2,382	2,467	2,543	2,351
Marketing and Regulatory Programs				
Animal and Plant Health Inspection Service	1,089	1,001	1,177	1,118
Agricultural Marketing Service	151	220	211	229
Section 32 Funds	1,279	870	1,156	849
Grain Inspection, Packers, and Stockyard Administration	32	32	37	43
Departmental Activities	576	531	640	629
Total USDA*	72,390	74,406	96,393	95,482

*Totals may not add up because receipts are not shown (such as from user fees).
Source: "USDA Budget Summary 2006," Appendix, USDA.

Appendix D

Examples of U.S. Domestic Support Programs

Current legislation includes a complex mix of direct payments, countercyclical payments, marketing loans, and loan deficiency payments. The support varies across program commodities, which include, among other commodities, wheat, feed grains, oilseeds, cotton, rice, and dairy.

Crop Disaster Program (CDP)—The CDP provides crop-loss disaster assistance for producers who suffered crop losses in 2003, 2004, or 2005 caused by damaging weather and related conditions.

Direct and Countercyclical Payment Program (DCP)—DCP payments provide income support to producers of eligible commodities and are based on historical acreage and yields and not on the current production choices of the farmer. Countercyclical payments may be viewed as an income supplement to producers of program commodities when the market prices at which they sell their crops are below "target" levels set in the farm bill.

Nonrecourse Marketing Assistance Loan (MAL) and Loan Deficiency Payment (LDP) Programs—MALs provide producers interim financing at harvest time to meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows. MALs allow producers to store production at harvest and facilitate more orderly marketing of commodities throughout the year. MALs for covered commodities are nonrecourse because the commodity is pledged as loan collateral and producers have the option of delivering the pledged collateral to the Commodity Credit Corporation as full payment for the loan at maturity should the market price at that time be below a specified level (the "loan rate").

A producer who is eligible to obtain such a loan but who agrees to forgo the loan may obtain an LDP. The USDA's Commodity Credit Corporation (CCC) calculates daily what market prices "should" be for every county where program commodities are grown. If the farmer has to sell at a market price below CCC's posted price, the farmer receives the loan deficiency payment to offset the difference. Loan deficiency payments are designed in part to keep farmers who take out marketing loans from forfeiting their crops to the CCC when prices fall.

Source: Farm Service Agency Fact Sheet.

Appendix E

Initiatives Linking Food and Nutrition Goals

The following initiatives are positive steps in the direction of linking nutrition and government support. Programs like these need to be supported and built upon to increase their scope and impact.

Healthier U.S. School Challenge

The Healthier U.S. School Challenge is a voluntary program for elementary schools that is based upon a self-certification process. To be recognized as having a "Silver" or "Gold" program, the school must undertake a local assessment of its food operations, nutritional education, and physical activity programs. It is the responsibility of this panel to review the criteria in comparison to the school's program and to certify that their school meets the established criteria.

To become certified as a Silver School, the school must meet the following criteria:

- Three different fruits and five different vegetables offered each week.
- Dark green or orange vegetable or fruit offered three or more times a week.
- Fresh fruits or raw vegetables offered three or more days a week.
- Good source of Vitamin C offered each day.
- Four different entrees or meat/meat alternates offered throughout each week.
- Cooked legumes (dried beans or peas)—one or more servings offered each week.
- Whole-grain foods offered three or more times a week.

- Two or more sources or iron offered daily.
- Lowfat (1%) and/or skim (nonfat) milk offered daily.

To become certified as a Gold School, the school must meet the following additional criteria:

- Fresh fruits or raw vegetables offered every day of the week.
- Whole-grain foods offered every day of the week.

Texas School Nutrition Policy

In recent years, responding to concerns over obesity among school-age children, the Texas Department of Agriculture took action by formulating a new nutrition policy for schools that administer the federal School Lunch Program. Released in March 2004, the policy governs students' access to select foods or food groups during the formal school day. The Texas framework creates guidelines customized for elementary, middle, and high schools to provide a nutritious, healthy diet. At the heart of the policy are restrictions governing how many popular foods considered to be of "minimal nutritional value" can be served during the school day. The policy is especially focused on eliminating snacks, soft drinks, and fried foods served as part of school lunch or through other school programming. In place of non-nutritious beverages, the policy advocates serving 2 percent milk, unflavored water, or 100 percent fruit or vegetable juice at all times. Instead of cupcakes and cookies, the policy calls for serving fruits and vegetables and the teaching of healthy eating habits.

Maine Senior FarmShare Program

The Senior Farmers' Market Nutrition Program (SFMNP) was created in 1999 as an addition to the widely successful Special Supplemental Nutrition Program for Women, Infants, and Children (WIC nutrition program). The SFMNP program was designed to provide fresh, nutritious food to low-income seniors across the country. Unlike the WIC program, SFMNP is funded through a competitive grant process that rewards innovation in program design.

The Maine Senior FarmShare Program, funded through the SFMNP, is a nutrition program for low-income, elderly Maine residents and a market catalyst for Maine farmers. Seniors benefit from

FarmShare's supplements of otherwise unaffordable and often inaccessible fresh fruits and vegetables from Maine farms. Maine farmers benefit from new market opportunities for their produce. Through FarmShare, Maine's farmers in effect become social service agents, providing fresh fruits and vegetables to low-income seniors throughout the growing season.

Task Force Cochairs

Catherine Bertini
Former Executive Director, World Food Program
United Nations
Catherine Bertini, former under-secretary-general for management at the United Nations, has recently joined the Maxwell School of Citizenship and Public Affairs at Syracuse University as a faculty member in the Department of Public Administration. As the executive director of the UN's World Food Program, Bertini oversaw the largest humanitarian agency in the world. She was named World Food Prize 2003 Laureate in recognition of her leadership role in assisting hundreds of millions of victims of wars and natural disasters throughout the world. In 1996 *The Times of London* named her one of "The World's Most Powerful Women." The American Public Welfare Association recognized Bertini as one who "epitomizes the very best in public service." In her most recent position, Bertini was a member of the UN secretary-general's cabinet, participated in the UN systemwide Chief Executives Board, and chaired the management committee. She was the senior American official in the UN Secretariat.

August Schumacher Jr.
Former Undersecretary of Agriculture for
Farm and Foreign Agricultural Services
United States Department of Agriculture
As former undersecretary of agriculture for farm and foreign agricultural services at USDA from 1997 to 2001, Gus Schumacher oversaw the Farm Service Agency, the Foreign Agricultural Service, and the Risk Management Agency. Prior to his appointment, Schumacher served as administrator of USDA's Foreign Agricultural Service, worked as a senior agrilender for the World Bank, and served as commissioner of food and agriculture for the Commonwealth of Massachusetts. Schumacher currently is a consultant to the Food and Society Initiative at the Kellogg Foundation. He also directs the Washington operations of SJH and Company, an agristrategy firm. He also currently serves as the agricultural editor of *Food Arts* magazine. Schumacher is on the board of advisers of John Deere's Food Origins and serves on the boards of eFarm, FreshFarm Markets, the Environmental Power Corporation, and GrainPro. He has a degree in economics from Harvard College, studied at the London School of Economics, and was a research associate in agribusiness at the Harvard Business School.

Robert L. Thompson
Gardner Chair in Agriculture Policy
University of Illinois at Urbana–Champaign
Robert L .Thompson assumed the new Gardner Chair in Agricultural Policy at the University of Illinois on August 1, 2004. Dr. Thompson also serves as chairman of the International Food and Agricultural Trade Policy Council. From 1998 to 2002 he served as director of agriculture and rural development and as senior advisor for agricultural trade policy at the World Bank. Prior to that he served as president and CEO of the Winrock International Institute for Agricultural Development, as dean of agriculture at Purdue University, as assistant secretary for economics at the U.S. Department of Agriculture and as senior staff economist for food and agriculture at the President's Council of Economic Advisers. He is a past president of the International Association of Agricultural Economists. He is a fellow of the American Agricultural Economics Association and of the American Association for the Advancement of Science and a foreign member of the Royal Swedish Academy of Agriculture and Forestry and of the Ukrainian Academy of Agricultural Sciences. He is also a member of the Council on Foreign Relations, New York, and The Chicago Council on Global Affairs.

Participant Biographic Summaries

Walter J. Armbruster
President
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Dr. Walter J. Armbruster is president of the Farm Foundation. He is a fellow of the American Agricultural Economics Association, the American Association for the Advancement of Science, and the International Food and Agribusiness Management Association as well as a Distinguished Agricultural Alumnus of Purdue University. Dr. Armbruster served as president of the American Agricultural Economics Association in 1997-98, and is secretary-treasurer of the International Association of Agricultural Economists.

Gary R. Blumenthal
President and Chief Executive Officer
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Gary R. Blumenthal is president and chief executive officer of World Perspectives, Inc. He served as deputy assistant for the cabinet liaison to former president George H.W. Bush as well as the special assistant to the president for agricultural trade and food assistance. Mr. Blumenthal served as chief of staff to secretary of agriculture Clayton Yeutter.

Michael Boehije
Professor of Agricultural Economics
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Michael Boehije conducts research and teaches in the area of farm and agribusiness management. At Purdue University, Professor Boehije teaches courses in agricultural finance and economics for undergraduates and managers in the EMBA program. He is a fellow of the American Agricultural Economics Association and the International Food and Agribusiness Management Association.

Craig Cox
Executive Director
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Craig Cox is executive director of the Soil and Water Conservation Society. He has served as professional staff member of the Senate Committee on Agriculture, Nutrition, and Forestry and as special assistant to the chief of USDA's Natural Resource Conservation Service.

Robert A. Easter
Professor and Dean of the College of Agricultural, Consumer, and Environmental Sciences
University of Illinois at Urbana–Champaign
Robert A. Easter was appointed dean of the College of Agricultural, Consumer, and Environmental Sciences at the University of Illinois in 2002. Dr. Easter served as head of the Department of Animal Sciences from 1996 to 2001 and has been on the Animal Sciences faculty since 1976.

Mike Espy
Mike Espy, PLLC, and AE Agritrade, Inc.
Alphonso Michael Espy is a private-sector attorney, counselor, and agricultural advisor for Mike Espy, PLLC and AE Agritrade, Inc. Mr. Espy is a former secretary of the U.S. Department of Agriculture. He is also a former U.S. Representative from Mississippi. Secretary Espy serves as a board member of the Farm Foundation, Inc.

Thomas Ewing
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Congressman Thomas Ewing serves as chairman of the joint Department of Agriculture and Department of Energy's Biomass Research and Development Technical Advisory Committee and is a member of the steering committee of the Agriculture and Energy Working Group "25 by 25." Congressman Ewing served on the House Committee on Agriculture and chaired the Subcommittee on Risk Management and Specialty Crops, was a leader in the Congressional Rural Caucus, and was elevated to deputy whip in the GOP party structure.

Enrique E. Figueroa
Assistant to the Provost for Latino Affairs and Director, Roberto Hernandez Center
University of Wisconsin at Milwaukee
Enrique E. Figueroa is director of the Roberto Hernandez Center, where he assists the provost in efforts to promote the hiring of Latino faculty and represents UWM before the Milwaukee Latino community. Dr. Figueroa was administrator of the Agricultural Marketing Service for the Clinton administration and deputy undersecretary for marketing and regulatory programs.

Timothy J. Galvin
Agriculture and Trade Policy Consultant
Timothy J. Galvin works as a policy consultant in the fields of Agriculture and Trade. He previously served the United States Senate as a senior analyst for agriculture and trade. He also has worked as an administrator for the Foreign Agricultural Service in the U.S. Department of Agriculture.

Bruce Gardner
Professor, Department of Agricultural and Resource Economics
University of Maryland
Bruce Gardner is Distinguished University Professor of the Department of Agricultural and Resource Economics at the University of Maryland. He previously served as assistant secretary of agriculture and as a senior staff economist on the president's Council of Economic Advisers under presidents Ford and Carter. He was elected president of the American Agricultural Economics Association in 2000.

Scott Gordon
Chief Executive Officer
Rosenthal Collins Group
Scott Gordon is CEO of Rosenthal Collins Group, LLC, a leading futures brokerage and trading firm headquartered in Chicago. Previously, he was chairman of the board of the Chicago Mercantile Exchange. Mr. Gordon serves on numerous boards, including the Institute for Financial Markets and The Chicago Council on Global Affairs.

Ralph E. Grossi
President
American Farmland Trust
Since August 1985, Ralph E. Grossi has served as president of American Farmland Trust, the leading national nonprofit organization focused on farmland protection. He is currently chairman of the board of directors of Smart Growth America and on the advisory board of the Yale School of Forestry and Environmental Studies.

James D. Grueff
Partner
Decision Leaders, LLC
James D. Grueff is a recently retired Foreign Service officer from the Foreign Agricultural Service of the USDA. He served as assistant

deputy administrator for International Trade Policy. He also was the U.S. team leader during the WTO Uruguay and Doha Round negotiations.

Paul Hammes
Vice President and General Manager, Agricultural Products Group
Union Pacific Railroad
Paul Hammes joined Union Pacific Railroad in 2003 as assistant vice president, agricultural products. Prior to Union Pacific, he spent twenty-five years with Cargill Inc. In this capacity he had various trading, transportation, and asset-management responsibilities in the United States and Canada.

John D. Hardin Jr.
Owner
Hardin Farms
John D. Hardin Jr. serves as vice chair of the Purdue University board of trustees. In the past he was a member of the Food Security Advisory Committee to USAID-USDA and served as vice chair of the Agricultural Policy Advisory Committee for Trade for USDA and USTR under President Clinton. He is a past president of the National Pork Producers Council and former chairman of the United States Meat Export Federation. In addition, he is the owner of Hardin Farms, which specializes in pork production and grain farming.

Jeffrey Hebble
President, Asia/Africa Division
Corn Products International.
Jeffrey Hebble was named president of the Asia/Africa division of Corn Products International, Inc., in 2001. He began his career at CPC International, Inc. as a grain merchandiser in its Chicago office. Mr. Hebble currently serves on the China Roundtable for The Chicago Council on Global Affairs.

Robbin S. Johnson
Senior Vice President, Corporate Affairs
Cargill, Incorporated
Robbin S. Johnson was elected senior vice president, corporate affairs, of Cargill, Inc. in June 2000. Mr. Johnson chairs the Cargill Citizenship Committee and serves on the Cargill Foundation. Mr. Johnson is a member of the International Policy Council on Food, Agriculture, and Trade and of the Council on Foreign Relations, New York.

Timothy Penny
Senior Fellow and Codirector, Humphrey Institute Policy Forum
Hubert H. Humphrey Institute of Public Affairs
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Currently, Tim Penny is senior fellow and codirector of the Humphrey Institute Policy Forum. In 2001 he was a member of President Bush's bipartisan commission on Social Security. From 1982 to 1994 Tim Penny served on the U.S. House Agriculture Committee and as chair of the Foreign Agriculture and Hunger subcommittee.

Ina Schonberg
Director, Hunger and Malnutrition Unit
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Ina Schonberg has worked at Save the Children as director of the Food Security Unit for four years. Prior to joining Save the Children, Schonberg worked for ten years with USAID's Office of Food for Peace as an institutional support contractor. She has also served with Citibank, West Africa financial institutions.

Susan Sechler
Director, United States Trade & Development Program
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Susan Sechler is the U.S. director of the German Marshall Fund's Trade and Development program. Previously, she served as senior advisor for biotechnology at the Rockefeller Foundation. Ms. Sechler was deputy assistant secretary for economics, policy analysis, and budget at the U.S. Department of Agriculture.

Alejandro Silva
Chairman
Evans Food Group Ltd.
Alejandro Silva is chairman of Evans Food Group Ltd. He is vice president of the U.S.-Mexico Chamber of Commerce and a member of Chicago Chamber of Commerce. Mr. Silva is on the board of directors of The Chicago Council on Global Affairs and is the secretary of the Chicago Academy of Sciences.

M. Ann Tutwiler
President Emeritus
International Food & Agricultural Trade Policy Council
M. Ann Tutwiler is managing director for Trade and Development at the William and Flora Hewlett Foundation. Previously, she

served as president and chief executive of the International Food and Agricultural Trade Policy Council. She was the first chair of the Agriculture Biotechnology Forum and has participated in several task forces. She is a member of the Grains and Oilseeds Agricultural Trade Advisory Committee.

Michael Von Luehrte
Director, Commodity Research
Kraft Foods Inc.
Michael von Luehrte is director of Commodities Research for Kraft Foods, Inc. He is responsible for developing commodity market analysis and supporting procurement risk management activities. Previously, Mr. Luehrte was manager of commodity research at Kraft Foods International based in Zug, Switzerland, and manager at Taloca Cafe S.A., in Rio de Janeiro.

John Weubbe
Senior Vice President, Food and Agribusiness Regional Commercial Banking Office
Wells Fargo & Co.
John Weubbe joined Wells Fargo Bank in 2004 to lead a new Food and Agribusiness lending group focused on the Midwest and Northeast regions. He is responsible for managing the Midwest Food and Agribusiness division and for new business development. Previously, John Weubbe managed Bank of America's Midwestern Food and Agribusiness efforts.

Tamara A. White
Senior Director of Commodities
Illinois Farm Bureau
Tamara A. White is senior director of commodities for the Illinois Farm Bureau. She is responsible for managing all Commodities Department activities and programs. Previously, Ms. White was assistant executive director of the International Food and Agricultural Trade Policy Council. She is a member of the Illinois Global Partnership Advisory Committee on Agriculture and served on the Secretary of Agriculture's Agricultural Technical Advisory Committee for Trade in Feed, Grain, and Oilseeds from 2001 to 2003.

The following Task Force members chose not to sign the final report:

Daryll E. Ray
Professor and Blasingame Chair of Excellence and Director, Agricultural Policy Analysis Center
University of Tennessee
Since 1991, Daryll Ray has held the Blasingame Chair of Excellence in Agricultural Policy at the University of Tennessee, where he also established the Agricultural Policy Analysis Center (APAC). In 2003 he made a presentation to international farm leaders gathered in Cancun, Mexico, for the Fifth World Trade organization meeting. Dr. Ray previously served on the Oklahoma State University faculty for twenty years.

Jill Long Thompson
Chief Executive Officer and Senior Fellow
National Center for Food and Agricultural Policy
Jill Long Thompson is the CEO and senior fellow of the National Center for Food and Agricultural Policy in Washington, D.C. Beginning in 1989 she served for six years as a member of the United States House of Representatives. In 1995 she was made undersecretary of agriculture for rural development in the U.S. Department of Agriculture. Throughout her career she has taught at Indiana University and Valparaiso University.

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Session IV: Global Policy Evolution

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