File : memos to Pres.

THE SECRETARY OF AGRICULTURE
WASHINGTON
20250-0100

MEMORANDUM FOR THE PRESIDENT

From: **Secretary Dan Glickman**

Dan Glickman
2-21-97

Subject: **Bovine Spongiform Encephalopathy (BSE)**

I want to let you know the steps the Department has taken and is taking to address concerns about Bovine Spongiform Encephalopathy (BSE). While BSE is frequently called "mad cow disease" in the media, I strictly avoid that terminology.

Animal Health

BSE is not known to exist in the United States. USDA's Animal and Plant Health Inspection Service (APHIS) prohibits the importation of live ruminants such as cattle from countries where BSE is known to exist. The import ban on live cattle from Great Britain was first imposed in 1989.

As part of its increased surveillance for BSE, APHIS has traced 496 head of cattle imported from Great Britain between 1981 and 1989. Only 34 of those cattle are still alive and none has BSE. They are under movement restrictions and will not be permitted to enter the food chain. Thirty-three additional cattle have not been traced; these cattle were probably imported in the early 1980's and are most likely dead.

APHIS has also increased surveillance to detect BSE if it is accidentally introduced into the United States. Active surveillance began in 1990. As of the end of January, we have examined over 5,300 cattle brains and have found no evidence of BSE. These brains are collected from cattle in the most at risk population, including those rejected for slaughter, to increase our chances of detecting BSE should it emerge in this country.

Since 1994, we have been using the most up-to-date technology to conduct these tests. We are the only country in the world that is systematically using this technology to survey for BSE.

Human Health

There is a great deal of concern, and increasing, though not direct, evidence that BSE is linked to variant Creutzfeldt-Jakob disease (v-CJD) in humans, a fatal brain encephalopathy disease which includes swelling and various other adverse symptoms. A survey of the medical community by the Center for Disease Control and Prevention last summer found that no cases of v-CJD have occurred in the United States.

The World Health Organization has stated that "[c]ountries should not permit tissues that are likely to contain the BSE agent to enter any food chain". Studies of confirmed field cases of

BSE in the U.K. found the BSE agent only in the brain, spinal cord, retina, and distal ileum (intestine). It is most often present cattle between 2 and 8 years of age.

USDA's Food Safety and Inspection Service (FSIS) inspects cattle before they are slaughtered and after slaughter to assure that only healthy animals and parts are used for human food. The U.S. does not currently import meat products from countries where BSE is known to exist, although this is not the result of import restrictions.

FSIS regulations prohibit the use of animals with central nervous system disorders for human food. The regulations also restrict the use of spinal cords for human food but do not specifically state that spinal cords are inedible. Brains are sold in small quantities for edible use in this country, and spinal cords are exported for human food. Both of these tissues, as well as retina, may be rendered to produce an edible product for use in other human food products.

We are actively considering ways in which to deal with the use of these tissues that have been shown to carry the BSE-agent, even though BSE is not known to exist in the U.S. This is a sensitive area because some regulatory options could impose significant costs that some could criticize for addressing a risk that is not scientifically demonstrated. For example, FDA's proposed rule for a complete ruminant-to-ruminant ban in animal feed products, which USDA fully supports, has been criticized by some as lacking an adequate scientific basis, even though it has been scientifically shown that BSE can be transferred in this manner.

Given USDA's import restrictions and the fact that BSE is not known to exist in this country, the risk of contracting a human disease from consumption of these products in the U.S. is very small. Before deciding what regulatory steps to take, if any, I have directed our agencies to organize a meeting of top public health scientists throughout the Federal government to discuss the state of scientific knowledge in this area. The meeting is scheduled to occur next week.

Consumer groups and others have also recently focused attention on a technology called Advanced Meat Recovery (AMR) systems, a mechanical process to remove residual meat from carcass bones, in contrast to hand de-boning such meat. In particular, they argue that FSIS should issue a directive requiring spinal cord removal from carcasses prior to entering AMR systems. FSIS will be issuing such a directive shortly on the basis that the spinal cord is not meat, as now defined in regulation.

Attention to this issue has heightened following the public discussion of preliminary and partial findings of a USDA study of AMR product, which included finding central nervous system tissue in a small number of samples. The media have made repeated inquiries about these data. USDA will completed its analysis of all data this week and released the results to the public today.

In addition to issuing the directive on spinal cords, FSIS is reviewing the data to determine whether and how to revise USDA's regulations on AMR systems, which currently allow the product of these systems to be labeled as meat. Consumer groups are likely to be strong supporters of such regulatory action.

I will keep you posted on our efforts.

THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C.
20250-0100

8/7/96

Dear Mr. President -

The attached news story on agriculture and rural issues ran in Sunday's Des Moines Register. By and large, it puts a very positive spin on the current farm and rural economy. We are and should continue to take credit for the prosperity being enjoyed by more and more rural Americans.

By the way, your speech to the agriculture communicators was extremely well received. Have a great vacation.

Dan

Farmers enjoy the ride — for now

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The grain-price rally has been a big boost for much of rural America. But in the farm economy, valleys aren't far behind the peaks.

By ANNE FITZGERALD and GEORGE ANTHAN
REGISTER STAFF WRITERS

Jefferson, Ia. — John Annin, president of Parker Industries in Jefferson, says business at his grain wagon manufacturing company is booming.

Production has increased 25 percent or more this year. Workers are putting in longer days and working some Saturdays.

Just 20 miles to the west, however, at a bank on Glidden's main street, lenders Rob Walker and Dave McNamara are urging farmers to cut costs, cull cattle herds and, in cases, sell some land.

Steve Reinart, a local cattleman, has reduced his herd 30 percent.

"The high grain prices are hurting us because we're not able to sell our feeder cattle for a very good price," he said.

Welcome to the flip sides of this year's sizzling farm economy.

Historically high grain prices, soaring demand and tight supplies have made this a propitious year for U.S. agriculture, except for some producers in the livestock business.

At the same time, many in rural Iowa see hazards ahead.

A "Spike"

"We have a spike, but the question is how long that's going to last," said Bob Jolly, an agricultural economist at Iowa State University in Ames.

U.S. Agriculture Secretary Dan Glickman and his top officials are pinching themselves, pausing as they extol the prosperity that is sweeping much of rural America to offer what they call "reality checks" — reminders that in the farm economy, valleys aren't far behind the peaks.

For now, with a presidential election approaching, Glickman and his boss, President Clinton, are taking full advantage of estimates that farm income, exports, grain prices, and farmers' equity and assets are at boom-time levels.

They see $20 billion or more of additional cash flowing into farmers' pockets over the next two years, much of which many experts expect will quickly pour into car, truck and farm equipment dealerships. Trade also is expected to pick up from rural discount stores to Main Street merchants.

For sure, some businesses in largely rural counties across the Corn Belt already are experiencing a payoff.

In Carroll, Griffith Ford Lincoln-Mercury, like most businesses in this area, relies heavily on agriculture. Sales are up this year, said Craig Griffith, sales manager.

"It looks like people are spending some money right now," he said, "so they must be fairly confident about how the year's going to go."

In addition to higher grain prices, many in the farm implement business are banking on a key aspect of today's farm economy: Much of the farm machinery now in use is in dire need of replacement.

"A lot of people are farming 1,000 acres with a 15- to 20-year-old tractor, and it just doesn't work," said Mike Willenborg, sales manager for Rueter's Red Power, a Case III dealership with shops in Carroll and Grand Junction.

"That's going to induce a lot of buying," he said. "It has already."

According to a monthly sales log Willenborg has kept during 17 years in the implement business, this may be his best sales year ever.

"The spending is just going to keep on going all year long unless things really change," he said.

Misgivings, Too

But in these western Iowa communities, misgivings about the grain-price rally and the expectations for higher farm income also abound.

And that isn't lost on Glickman, a former congressman from Kansas and veteran of the House Agriculture Committee.

"We've had a lot of very great successes and very few failures," Glickman said. But he quickly adds, "I know we must temper our enthusiasm with a reality check," noting not only that some livestock producers aren't sharing in the prosperity, but also that past experience shows farm affluence often begets a downturn.

Clinton, too, is cautious, tempering a recent upbeat speech to farm organization and land grant college officials by stating, "I wish I could promise we'll have $5 corn and $6 wheat forever, but I can't do that."

Milking It

Even so, the Clinton administration is expected to milk the booming farm economy for all that it can. That may or may not prove to be politically advantageous.

Political gospel holds that a strong economy translates into votes for the incumbent administration. But some longtime experts on farm politics say the rural vote often tends to go Republican when times are good, even if the prosperity occurs under a Democratic administration.

"One thing's for sure," said Bob Bergland, who was agriculture secretary in the Carter administration. "If it was bad, he (Clinton) would get the blame. It's much harder to get the credit."

> **"It looks like people are spending some money right now, so they must be fairly confident about how the year's going to go."**
>
> — Craig Griffith
> *Carroll auto dealer*

Thurman Gaskill of Corwith, who helped run the five national farm and rural campaigns for Presidents Ford, Reagan and Bush, agrees.

"When things are going well, the rural vote tends to go Republican," he said.

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Farmers enjoy boom but remain cautious

PRICES

Continued from Page 1A

But Neil Harl, an Iowa State University economist who has studied connections between the farm economy and politics, thinks 1996 will be an exception.

"Widespread Revulsion"

"I think there's a great deal of displeasure," he said, "... a widespread revulsion, at what's been happening in Congress, at positions taken (by Republicans) on taxes, employment, the environment, especially in the House.

"So there will be some erosion of traditional rural Republican support, especially among women."

Clayton Yeutter, agriculture secretary under President Bush and a key player in mobilizing the farm vote in several presidential campaigns, said, "Everyone expects the battleground of this campaign to be in the Midwestern states, the ones where the race could be really close. The farm vote, while relatively small in terms of the total electorate, can be crucial in these states."

Harl agreed, saying, "There are probably 12 to 15 states where the farm vote is a very significant factor, indeed, and close to three dozen where it can be a deciding factor in a close campaign."

Iowa is among them.

And here, as in other farm states, views of the agricultural economy vary, depending on whether you have grain to sell or don't, or on whether you raise cattle.

Just west of Glidden, the site of a planned farmer-owned ethanol plant sits vacant, leaving Norm Soyer, a local farmer and seed dealer, to lament the lack of financing for the project.

Soyer summed it up this way: "With $5 corn, the only people that can take advantage of it are the people that don't need the money."

William Deuel, an 80-year-old grain farmer and cattleman from Lake City, is one of the few with grain to sell — two years' worth of corn and at least that much of soybeans.

When he and his wife of 55 years were first married, they decided not to buy anything unless they could pay for it with cash.

Now farming with his son, Larry, Deuel has applied the same philosophy to grain sales: Bank it until the price is right and sell for cash only.

"This year, it's paid off," he said one day recently, after dumping a load of soybeans at West Central Cooperative in Ralston.

The prospect of affluence in rural America is so strong that the USDA's Economic Research Service has issued an internal briefing paper on how farmers can avoid being pushed into the highest tax brackets, advising on options available for deferring income and accelerating deductible expenses.

Most of agriculture's income and finance numbers are upbeat.

Commodity receipts are estimated to top $200 billion, almost 15 percent higher than the 1990-95 average. Net cash income, money pocketed after expenses, is seen rising as much as 20 percent to $60 billion. This includes $8 billion in federal subsidies under the new Freedom to Farm Act.

At the same time, farm expenses are estimated to rise 6 percent or less compared with 1995, with debt up perhaps 3 percent.

Corn leads the bandwagon, with the USDA estimating cash receipts as high as $23 billion this year, 40 percent above the average of the 1990s.

Exports are set to top $60 billion, 50 percent higher than in 1992 and translating, says Glickman, into a total of almost 1 million agricultural, processing, handling and transportation jobs.

"Period of Exuberance"

Iowa State's Harl calls all this "a period of exuberance, which comes about every two decades."

But Harl, Glickman and Bergland emphasize farmers should be careful not to let this "exuberance" push them into the same kind of pell-mell rush to buy land and capital equipment as in the 1970s, factors that led to collapse of the agriculture economy in the 1980s.

Glickman also emphasizes the bounty won't be shared by all because of drought in the southern Plains and excessive rain in the eastern Corn Belt, along with low livestock prices.

Walker, who has been a banker in Glidden for 18 years, is well aware of that two-sided picture.

Carroll County is one of Iowa's leading livestock-producing areas, and at least a third of his borrowers are in the cow-calf business.

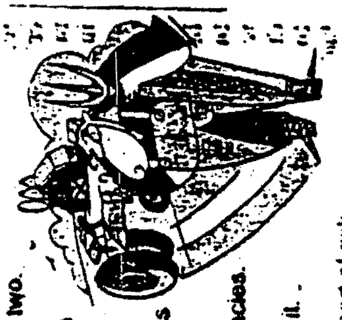
Many have had to sell cattle — and some, land — to stay in business. A few may be forced out.

Walker is encouraged by the highest grain prices in decades, but he also is concerned. Evidence of unevenness in the farm economy is growing at his bank, where farm-related debt is mounting and cash flow rates are slipping.

Last year, for the first time since the '80s, some of his borrowers couldn't repay their operating loans — an indication, he says, that "things are hurting out here."

THINGS TO CONSIDER

Higher grain prices are spurring expectations of increased farm income this year. Bankers, financial advisers and others in the farm sector offer this advice to farmers:



- Before upgrading farm equipment, consider reducing overall debt load. For some, though, it may make more sense to borrow to upgrade and leave cash reserves intact, or to use a combination of the two.
- Don't project high-dollar corn into your cash flow and ratchet up your production costs. While recent months have brought $4-plus-per-bushel prices, there's no guarantee that prices will stay that high. Make your projections based on corn bringing $3 or less per bushel.
- Keep close tabs on per-unit costs, or efficiencies.
- If expanding your operation, use cash to do it.
- Realize that financial management is a key part of risk management. Tend to both.

THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C. 20250-0100

August 10, 1997

MEMORANDUM FOR THE PRESIDENT

From: Secretary Dan Glickman

Dan Glickman

Subject: Department of Agriculture Initiative to Fight Food Stamp Fraud

I want to bring to your attention a departmental initiative I am taking that will lead to the capture of thousands of fugitive felons, many of whom are violent and threaten the safety of our Nation's citizens, and rid the food stamp program of thousands of ineligible recipients -- saving millions of dollars every year and restoring integrity to our Nation's primary nutrition assistance program.

Through this initiative, we will match information about fugitive felons and prison inmates against the rolls of the food stamp program, enabling law enforcement agencies to locate and capture the fugitives then remove them and prison inmates from the food stamp rolls. Our Office of Inspector General (OIG) has already tested this initiative on a small scale and scored a remarkable success -- which is one of the reasons we are confident that the initiative will succeed.

In early 1997, a task force of USDA, local, State, and other Federal law enforcement officers operating in two Kentucky counties found 207 fugitives who had received an estimated $300,000 in food stamps. Over half of them had prior felony convictions, including assault, attempted murder, and trafficking in drugs. Over a 3-week period, 85 felons were taken into custody.

The OIG also matched the names of prison inmates against the food stamp and other welfare programs recipient roles in Maryland and Virginia and found that 1,175 inmates had improperly received a total of $142,300 in benefits. To date, one individual has been indicted by the U.S. attorney's office and another 30 are pending prosecution by Federal or State authorities. The General Accounting Office performed a similar review in other States and found the same problem: prison inmates were receiving food stamps in spite of their disqualification.

Under the new initiative, the OIG will expand its scrutiny of felons and inmates on a national scale, starting in 20 cities and focusing on those individuals who are the most violent and dangerous, as well as those who have failed to meet their child support responsibilities. The Inspector General believes that with the help of other Federal, State, and local law enforcement authorities, his organization will capture at least 2,000 felons and will save the food stamp program at least $12 million per year. We derived that estimate by extrapolating nationally the results of the pilot program; actual savings may be much more because fugitives will find it impossible to slip back into the program, once they realize that law enforcement officials will be scrutinizing their request for food stamps will bring.

In addition, OIG plans to expand the matching of food stamp recipients rolls with Federal, State, and local inmates roles in all 50 States and the District of Columbia. We are calculating that such matches, and the subsequent investigations, will identify about 26,938 people who are improperly receiving food stamps and whose benefits are costing the program over $1.9 million each month. The inmates will be removed from the food stamp program rolls and, in some cases, prosecuted, saving the program approximately $24 million annually.

While this initiative will severely strain the resources of our OIG, to the extent other priority investigations will be affected, I am committed to it because our citizens will be safer and our tax dollars will be spent on those who are truly in need. Moreover, this critically important program – food stamps -- will regain the integrity it may have briefly lost to those who believe they can hide from the law and still demand entitlements from it.

I will keep you informed as we progress, particularly in advance of future announcements we may make reporting the success of the initiative.

USDA

December 30, 1998

United States Department of Agriculture

Office of the Secretary

1400 Independence Avenue, SW

Washington, DC 20250-0100

MEMORANDUM FOR THE PRESIDENT

From: Secretary Dan Glickman

Subject: USDA Response to the Current Crisis in Pork Prices

Beginning November 23, when I announced that USDA will buy this fiscal year $50 million worth of pork and donate it to school feeding programs and programs that feed the needy, USDA has taken several additional steps, summarized below, to alleviate the current crisis in pork prices, a slump that has pushed prices to their lowest in 5 decades and one-third of the level of just last year. Given our conversation today, I am also sending a similar memorandum to President Carter so he is fully informed.

- On December 21, the Vice President announced that USDA will purchase an additional $15 million worth of pork for programs that feed the needy.

  These purchases will be made only from hogs slaughtered and processed on Saturdays and Sundays, which is significant to ameliorating the current slump because though slaughter rates are near historically high levels, they are not keeping pace with consumer demand nor the amount of hogs ready for market because many plants are only operating single daily shifts and not on weekends. The conditions of the purchases the Vice President announced provide an incentive to processors to utilize their unused capacity, to ease the bottleneck contributing to weak cash prices.

- On December 23, I announced that under the terms of the Russian food aid package just completed, USDA will provide 50,000 tons of pork. Additionally, we are working on an export credit guarantee package for South Korea that will, we believe, include a significant amount of pork.

- On December 28, I placed a moratorium on further USDA lending for pork production facilities. Because part of the problem lies with the rapid increase in pork production over the last year, USDA's programs should not exacerbate the problem by providing incentives to increase supply.

  In addition, I announced that USDA will accelerate its psuedorabies eradication program. This action could remove as many as 1.7 million hogs and pigs from inventory, easing the supply glut as well as helping the US achieve psuedorabies-free status sooner than scheduled, which will ultimately help open additional export markets.

- Tomorrow, December 31, I will announce that USDA will ease its lending regulations to permit borrowers who have suffered from low commodity prices in 1998 to defer their 1998 payments until the end of the loan. Next month, USDA will also implement new procedures streamlining our credit programs, making them easier for farmers and for bankers, whose loans USDA guarantees.

  However, USDA does not have the legal authority to offer a loan program exclusively to pork producers, as they have requested. By statute, our credit programs are available to all farmers who meet the eligibility guidelines. Nonetheless, while the changes to our farm credit programs will apply to all borrowers, they were precipitated by the current crisis in pork prices.

- I am continuing to examine other options within my present authority to alleviate the crisis, including additional foreign humanitarian donations and whether USDA can make direct payments to pork producers to help bridge the current slump. I hope to act on these options next week. I am also studying whether we should seek legislation for other and additional forms of aid.

While current prices are depressingly low, they strengthened $2.50 last week, partly in reaction to USDA's steps and the announcement by two packers who have instituted minimum prices they will pay for live hogs, and this slump may continue – further pressuring farmers, heightening public interest, and increasing the already very significant interest it has generated among Members of Congress and Senators.

However, USDA's most recent estimate of industry trends, released yesterday, and futures prices are cautiously positive. The US hogs and pigs inventory is down 2% from September 1, and breeding stock is down 3%. Farrowing intentions are off 1% for the December to February quarter and down 7% for the March to May quarter. These projections suggest some easing of the over supply problem, a factor helping to strengthen April futures prices that, when equated to cash hogs prices, are roughly double current levels and June futures almost three times last week's price.

This has been a top priority of mine for the last couple of weeks, and will continue until we begin to work our way out of it. What we have done is discussed in greater detail in the attached materials.

THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C.
20250-0100

May 5, 1998

MEMORANDUM FOR THE PRESIDENT

From: Secretary Dan Glickman

Dan Glickman

Subject: State of the Agricultural Economy and USDA Actions

I. OVERVIEW

After a generally strong performance during 1996 and much of 1997, the U.S. agricultural economy is weakening. Agricultural prices, net farm income, and export sales set records in 1996 but have since fallen, with especially sharp declines for some commodities and in some geographic regions, such as the Northern Plains -- as reported in a front page article in today's The Wall Street Journal, "On the Northern Plains, Free-Market Farming Yields Pain, Upheaval."

A few key indicators illustrate the magnitude of the adjustment now taking place in U.S. agricultural markets. The Asian economic problems combined with lower U.S. commodity prices have reduced the value of U.S. agricultural exports from nearly $60 billion in fiscal year 1996 to $56 billion -- and this, our current forecast, is likely to be reduced further in late May. We expect net cash farm income to fall to $51 billion in 1998, down $4 billion from last year, and down 15% from 1996's $60 billion. The drop is primarily due to lower crop receipts and higher production expenses.

The weakest commodity markets are wheat and hogs. Wheat prices have hit their lowest level in 5 years, falling over 25 percent during the last 12 months. U.S. stocks compared with consumption are the highest since 1991 and, with the warm winter, a very large winter wheat crop is likely to be harvested starting in late May, putting further heavy pressure on prices. The weak wheat market, combined with several years of crop disease, has been especially punishing for farmers in the Northern Plains. Hog prices are down 30 percent

In other markets, corn and soybean prices are below year-ago levels, although they are still near the 5-year average. Cotton prices have recently weakened as China began the unusual step of exporting cotton into a declining market. Rice farmers, after some initial misgivings following enactment of the 1996 farm bill, have actually seen their prices stabilize and remain fairly strong. Cattle prices have been low, but after 2 years of herd reductions, prices are expected to strengthen as the year unfolds. Broiler prices have been average and producers are earning positive returns. Milk prices were record high during the first quarter of 1998 but are now rapidly declining, although prices are still expected to average a little higher this year and feed costs lower, compared with 1997.

Crop conditions around the world are generally favorable and longer term weather forecasts do not suggest problems for the 1998 growing season here or abroad. With limited sales expected to Asia this summer and into the fall and tough export competition expected from South America, favorable U.S. growing conditions could further aggravate the current decline in crop prices and farm financial conditions.

In response to these developments and the concerns I am increasingly hearing from farmers and ranchers, particularly during the farm forums the Deputy Secretary and I conducted last month, I have initiated several actions to provide assistance and am proposing additional measures. While these steps will help, the prospects for improvement in the state of the farm economy this fall will depend heavily on the size of this year's crop harvests in the U.S. and abroad and the pace of recovery of Asian economies.

II. ACTIONS TAKEN TO DATE

International. USDA reacted quickly to the Asian financial crises and since late 1997 has made available $2 billion worth of export credit guarantees to countries throughout the region. On April 24, USDA announced a further $400 million allocation to South Korea.

USDA has made $4.5 billion in export credit guarantees available worldwide, up 50% from the $3 billion allocated at this time last year. USDA and the Agency for International Development have also allocated the full amount of available funding, $1.1 billion, for exports under PL 480.

USDA has aggressively awarded export assistance under the Dairy Export Incentive Program (DEIP) to boost dairy exports. In fact, we expect to reach this year's limit permitted under the Uruguay Round Agreement on Agriculture well before the agreement year concludes.

USDA and USTR have successfully concluded farm market access initiatives to open the Brazilian market to U.S. wheat; Taiwan to meats and rice, and which allow U.S. pork producers to sell to the Phillippines.

Domestic. Thus far this fiscal year, USDA has purchased $442 million worth of beef, pork, and poultry for domestic food assistance programs. USDA has also purchased about $55 million of nonfat dry milk under the dairy price support program, which is being phased out by the 1996 farm bill.

The emergency supplemental appropriations bill you signed will provide $105 million in additional farm operating loans and $43 million in additional farm ownership loans for this fiscal year, actually slightly above the amounts the Administration requested. Without these funds, USDA would now be running out of money in some of these accounts. Although the Senate version of the legislation included the Administration's proposal to fix the 1996 farm bill's provision that denies farmers from receiving additional USDA loans if they receive a write down, the conference report dropped it from the final bill; I will continue working to get Congress to fix this onerous credit provision.

Last month, I met with several Northern Plains Senators and Congressmen and announced a package of reforms we will initiate to revise crop insurance regulations to provide more effective assistance to farmers in the Northern Plains and other regions where successive disasters have sharply raised premiums and reduced coverage.

III. FURTHER ACTIONS PROPOSED

International. USDA has developed a series of recommendations to simulate additional exports that are pending final approval before the relevant interagency groups. These actions include new export credit initiatives, including direct credit for selected countries; limited export subsidy activities for certain commodities; and proposed legislation to use unexpended export subsidy funding for alternative programs to strengthen exports and prices.

Domestic. USDA will to continue supporting commodity prices through the use purchases for domestic feeding programs and price support purchases, where possible and will press Congress to enact its legislative agenda to provide me more authority to respond to emergency situations and to strengthen the farm safety net.

In addition, I have begun preparing an initiative designed to bring all of USDA's resources to bear on helping farmers adjust to and compete in the changed farm policy and farm economy environment described in the Journal article. While your Administration has made profound changes in USDA's conservation and natural resource policies and has had innumerable farm trade successes, we have not been as successful as I would like in advancing an initiative designed at traditional production agriculture. Without undoing the premises of the current farm bill, we can still, nonetheless, play a more active and constructive role in helping farmers, ranchers and rural communities adjust to the changes they face and my initiative will be designed to meet those needs. To do something meaningful and to leave a legacy in this area, we need to develop a much bolder proposal to stabilize family farm agriculture.

IV. CONCLUSION

In closing, the administrative and legislative items of critical, and immediate, interest to U.S. agriculture are:

- The appropriate interagencies need to support the USDA recommendations for expanding and amending American agricultural export programs.

- Congress must pass the vital agricultural research bill shortly, as it resolves a funding insufficiency for crop insurance , strengthens funding for agricultural research and rural development, as well as providing food stamps for certain legal immigrants.

In the longer term, we have proposed a series of legislative items to the Congress that would enable me to provide emergency assistance, within the confines of the current farm bill. Beyond that, I am developing a longer term initiative, perhaps for consideration as part of the fiscal year 2000 budget, designed at better helping farmers adjust to the changing farm economy.

Finally, it is my judgment that most on Capitol Hill believe the Administration has been responsive to their concerns. While we continue to respond to the individual and immediate crises in farm country, I remain concerned about the political and economic ramifications of further market weakness.

USAID

U.S. Agency for International Development

The Administrator

June 5, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Dan Glickman, Secretary of Agriculture

Brian Atwood, Coordinator US Foreign Disaster Relief BA

SUBJECT: TRIP REPORT: Mexican Fire Situation

SUMMARY

Our trip underscored the uniqueness and gravity of the fires still burning in Mexico, particularly in the biodiversity-rich states of Chiapas and Oaxaca. As you know, the El Nino prompted the worst drought of the century. This combined with a delayed rainy season and traditional slash and burn farming produced the current crisis. We have helped to control it; but the end will come only with the rains.

The Mexican government is handling the fire response nearly as well as we could, given the fires' remote location, the complexity of finding and fighting them in isolated parts of the rain forest, and the drought-induced dryness of the forests.

We agreed on continued technical and air support. Our people are totally integrated into the Mexican government's fire-fighting team. We also agreed on a US environmental, reforestation and fire prevention response to the restoration program President Zedillo announced today. That US response is being detailed in a Memorandum of Understanding to be signed during the Bi-National Commission session on Environment next Wednesday.

Despite the still bitter reaction to Casablanca, we did not detect any negative spillover on our fire-fighting collaboration with the Mexican Government nor on plans for future environmental cooperation. The Mexican Environmental Agency, SEMARNAP (which combines our EPA, Forest Service, Interior, and NOAA) publicly and privately expressed their great appreciation for USG assistance.

FIRES

Since the Mexican request two weeks ago and our response, the number of fires has declined almost daily. Although new fires start almost daily, they have been quickly contained by the Mexican fire fighting effort. The highest level for active fires was 277 on May 22 and is now down to 143. Large priority fires have declined to 18.

Our response has been coordinated and financed by USAID'S Office of Foreign Assistance with the Department of Agriculture's Forest service doing the lion's share of our actual fire-fighting technical support, providing advice on helicopter water drops and infrared aerial fire pinpointing. NOAA satellite weather reports and fire spotting photos are integrated daily and technical support has come from the Department of Interior's Bureau of Land and Mines, particularly on handling the subterranean fires in the rain forest.

In Chiapas, the total number of fires dropped from a high of 76 from May 24th to 15 today of which 3 remain large priority fires that threaten important biodiversity reserves. In Oaxaca, fires were seemingly burning on every ridge line as we flew over the area. Those 64 fires are in particularly remote areas. Fortunately most of the burning has been beneath the rain forest canopy, feeding on the ground cover built up over centuries. Both the smoke from the burning and the canopy cover has made identifying and combatting the actual fires even more difficult.

IMMEDIATE ACTIONS

1

We agreed with the Secretary of Environment to continue our technical and air support until the rains come. We also agreed to conduct a post disaster assessment--theirs and ours. A key to
2 remember when hearing criticism of the Government of Mexico is that they had already trained 15,000 fire-fighters late last year and early this year in preparation for what we all knew would be a difficult fire season because of the prolonged drought. Everyone's assessment at the time was that they had the early fires under control. But when the rains didn't come anywhere near the normal April-May time frame, a few deceptive drops of rain in mid-May prompted an outbreak of small farmer land clearing burnings. Instead of stopping at the edge of the rain forest, the fires kept burning and simply outdistanced the government's capacity. That was when the requests to us finally came. We responded within 2 days of the request, initially with an assessment team, then in less than a week with helicopters, equipment and fire-fighting experts.

POST-CRISIS FOREST RESTORATION

3 We have agreed on a Memorandum of Understanding that USAID would sign with the Secretary of Environment next week on Cooperation in Conservation of Forest Resources. It would cover our support for their program announced today to restore through reforestation and/or protection and conservation of the areas affected by the fires. The Mexicans already have 270 million seedlings to reforest a significant area, but the right kinds of species only to cover 6,000 of the 14,000 hectares burned in the forests. The program also would include institution-strengthening for SEMARNAP, assessing and bolstering their forest fire fighting capability through Forest Service training and technical assistance, and a special action plan to respond to the damage in the high-value biodiversity Chimalapas reserve in Oaxaca. Finally, it will cover a review of how to support a Mexico national effort to address the dangers of slash and burn farming.

THE WHITE HOUSE

WASHINGTON

DATE: March 18, 1997

NOTE FOR: The Honorable Dan Glickman

The President has reviewed the attached, and it is forwarded to you for your:

Information ☒

Action ☐

"Dan,

This is very good. Also, I think you should highlight advocacy work of USDA when you can - rural development, research, alternative use of crops, new exports, etc-

BC"

Thank you.

Staff Secretary
(x6-2702)

cc:

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

February 21, 1997

Honorable Paul S. Sarbanes
United States Senate
309 Senate Hart Office Building
Washington, D.C. 20510-2002

Dear Paul:

You may be hearing concerns from your constituents regarding proposals in the budget with respect to the staffing levels and structure of the Department of Agriculture's (USDA) county-based delivery system. Some of these concerns are coming from county and Federal employees of USDA who are concerned about their futures. Other concerns are coming from constituents who are worried about the Department's ability to deliver programs at the local level, particularly the Conservation Reserve Program, for which we will soon start sign-up under the new rules we just announced.

I want to do everything possible to assure that you have accurate information about the status of USDA's county-based delivery system and the actions we are taking related to the proposals in the budget. In the first place, it is important to understand the context in which these developments are occurring.

We have been downsizing our county-based delivery system since 1994 when the Congress passed major reorganizing legislation. Pursuant to commitments made when that legislation was passed, we have been closing or consolidating approximately 1,200 county locations and creating 2,500 service centers to deliver programs at the local level. At the same time, we have significantly reduced employment in our county-based agencies. Between fiscal years (FY) 1993 and 1996, we have reduced Federal staffing in the Farm Service Agency (FSA) by 16 percent, county office staffing by 15 percent, staffing in our Rural Development agencies by 16 percent, and staffing in the Natural Resources Conservation Service (NRCS) by 14 percent. Our ability to continue serving our customers while making these structural changes and personnel reductions has been a major achievement for USDA.

In the past year, additional events have taken place which have caused us to take another look at the county-based structure. The 1996 Farm Bill changes our programs in many significant ways. Because of these changes, the President's budget proposes additional reductions during the FY 1998-2002 period. FSA faces further reductions in non-Federal county and Federal staffing. Further reductions in Rural Development staffing will come, also. Staffing in NRCS remains significantly below the FY 1993 level and will not be reduced further because of the additional conservation workload created by the farm bill.

I asked each of the involved USDA agencies, as well as our USDA Service Center Implementation Team, to take a hard look at the budget and give me their best advice as to how we can organize within those budget levels. I have asked them to examine these agencies at every level including headquarters, regional, State, and field offices, and to review every possibility for improved efficiency through sharing administrative services and adjusting staffing. We have indicated that we will hire an outside consultant to assist in this effort.

It is my understanding some of you may have received information based on the internal work done by some of the individual agencies or read news accounts about this work. I want to be very clear and emphasize that this work, however well intentioned, is speculative at this point. While we have made a general commitment that we will reduce the number of our service centers, I have made no decisions about individual offices. I am committed to working with the Congress as we proceed with our review, and will keep you fully apprised of our plans. In short, any information you receive which does not come from me or my authorized representatives does not represent any official proposal on the part of USDA.

With respect to program delivery, I believe we have adequate resources to deliver programs authorized in the farm bill. In addition to the State and county offices, we have clear legal authority for other USDA agencies to help program delivery if that should prove necessary. I am advising our State directors and other key personnel to make maximum use of this authority to assure we have the resources in place to conduct an effective signup for the Conservation Reserve Program and carry out our other responsibilities. To the extent that there are problems at individual locations, we will move rapidly to address those situations.

I hope you find this information helpful. There is no doubt that we face difficult decisions as we try to adjust our delivery system to the dual reality of the changes in programs made by the farm bill and the effort to balance the budget. We look forward to working with you on these issues.

Sincerely,

Dan Glickman

DAN GLICKMAN
Secretary

REMARKS FOR AGRICULTURE SECRETARY DAN GLICKMAN
1997 FARMERS UNION ANNUAL CONFERENCE
NASHVILLE, TN -- FEBRUARY 28, 1997

INTRODUCTION

Thank you, Leland. It's good to be back here with all of you ... on the home turf of our vice president. You know, with the world transfixed by Dolly, the genetically cloned sheep, the debate's now shifted to when the first ***human*** will be cloned. In Washington, that's translated into which ***politician*** will go first. The immediate answer from the White House was Vice President Gore. He's into all this technology stuff, and come to think of it, I ***have*** seen him in ***quite*** a few places lately. You'd almost think there were 2 of him ... maybe more.

I was with Vice President Gore -- or at least what I ***thought*** was him -- recently for a trip to South Africa. We were there opening up doors to our agricultural goods. Among other things, South Africa will now buy $34 million in quarantined wheat that's twice tested negative for Karnal bunt. South Africa was a productive trip, and an inspirational place to visit.

Regrettably, I can't say the same about ***this*** town. Nashville, for me, will always be the city of hard truths. Before I became Secretary of Agriculture, I was a Member of Congress from Kansas. I served on the House Agriculture Committee, and I came here for a conference. One day, I found myself lucky enough to be asked to sing a duet with Tammy Wynette.

We sang 'Stand By Your Man.' Tammy did ... through the ***entire*** song. We got a good round of applause ... in hindsight it was probably for her ***fortitude***. But at the time, I was halfway to the Country Music Awards in my head ... until she leaned over and whispered, ***'Don't quit your day job.'*** That's about when I decided that Secretary of Agriculture would be OK, too.

Actually, it's been much more than OK. Earlier this week, I gave the agricultural outlook for 1997. It's no state secret that the future of American agriculture looks very bullish.

We're coming off a year of record-high prices, and strong farm incomes. Ag exports reached close to $60 billion. Cash receipts are at an all-time high. The value of farmland's gone up 7%.

DAIRY

It hasn't been ***all*** easy. It never ***is*** on the farm. Cattle was squeezed by drought, $5 corn and $7 wheat. Dairy had trouble with weak prices. This Administration goosed exports, and accelerated government purchases. Partly as a result, milk and cheese prices are headed back up. We still have a ways to go, but we're hopeful the worst is behind us.

We're now taking a hard look at the National Cheese Exchange ... like you asked us to. We're in the comment period right now, so I don't have much ***new*** news. But I will say that the debate will certainly get a lot more interesting and ***complicated*** now that the Commodity Futures Trading Commission has decided to approve milk futures and oversee the cheese exchange.

The debate's also about to heat up on the structure of Class 1 or fluid milk prices. As many of you know, the '96 Farm Act mandated the reform of federal milk marketing orders. Next Friday, USDA will release a set of options that are under consideration. They'll serve as the starting point for public debate. We'd like to hear from you -- in as much detail as possible -- on what you think would work or wouldn't and why. You're the experts, too.

FSA REORGANIZATION

You're also the experts on the job we're doing for our producers out in the field. I know you have concerns about USDA reorganization. We're working to balance the budget by 2002, and that's going to require us to continue streamlining our county field structure.

This will save taxpayers an estimated $8 ***billion***. It also reflects the simple fact that farm programs have changed ***dramatically***, and USDA's going to have to change, too.

There are a lot of rumors, so I want you to hear ***from me*** that there is no 'master plan' that says which offices will close and which will stay open. Those decisions will only be made ***after*** we've consulted with state and local officials. I'm committed to an effective county field structure, and my bottom line will be preserving customer convenience ... ***your*** convenience.

AMERICA'S FARM ROOTS

So we've got our challenges, as we ***always*** do, and we'll work through them together. But overall, I believe we're headed into a new era of farm prosperity. Now, we need to ensure that ***all*** of agriculture -- big and small, in every sector -- comes along for the ride.

I like your theme this year, 'A Proud Heritage, A Bright Future.' It's true. Farmers are the quintessential Americans. In fact, great Americans throughout our history have been farmers. Take our 18th president. He once said, 'I am more of a farmer than a soldier. I take little or no interest in military affairs.' That's a pretty standard statement for the late 1800s ... except for the fact that it was made by the great civil war general ***Ulysses Grant.*** It just goes to show the central role the farm way of life has played in building the American identity.

Thomas Jefferson once said, 'the cultivators of the earth are the most ***valuable*** citizens. They are the most ***vigorous***, the most ***independent***, the most ***virtuous***, and they are tied to their country and wedded to its liberty and interest by the most ***lasting*** bonds.'

That tells me that agriculture is as much a system of ***values*** as anything else. They are core American values -- civic virtue, community, thrift, hard work, and self reliance. Whether we live in a city highrise or on 100-acres of farm, it's critical that we all value the land and the people who feed us.

CRP: OUR FARM BILL FOR THE FUTURE

We have a new Conservation Reserve Program that reflects America's strong environmental ethic. The dirty '30s warned us that we ***can*** push Mother Nature beyond her generous limits. It's in our hands not to.

That's why the new CRP is a ***true*** conservation program. It ***means*** what its name implies. It will no longer be government's way of controlling supply and demand. It will simply be government's way of ***helping*** farmers be good stewards of the land. We will take ***only the most*** environmentally sensitive land -- to prevent soil erosion, to protect wildlife habitat, and to improve our water and air quality.

In the longest of runs, we ***have*** no higher priority than feeding a growing world without destroying the environment. The CRP is our #1 tool for ensuring that agriculture's growth is sustainable. With commodity programs phasing out, the new CRP ***is*** our farm bill for the future.

Sign-up starts this coming Monday and lasts through March 28, so you'll have ample time to make your Fall planting decisions. We also have a continuous sign-up underway for high priority practices. I encourage all of you to talk to your local field office and consider your options.

RURAL AMERICA

A successful farm policy can't ***just*** focus on the land. Throughout this century, one of the biggest challenges we've faced in agriculture is the mass exodus -- especially of young people -- from the countryside. This Administration's started to turn that trend around. Last year, 1 million more Americans moved ***into*** rural communities than moved ***out***. Rural incomes, both on and off the farm, are starting to climb back up.

USDA's committed to innovative rural development efforts. It would be hard not to when we've got a President from Hope, Arkansas -- population 9,768.

- We've used the Internet and satellite technology to bring quality education and health care to the remote countryside.
- We're bringing safe, running water to 1 million rural Americans who've never had it.
- And, we've helped nearly 2 million rural Americans buy or hold onto their home -- options they probably wouldn't otherwise have had.

RURAL HOUSING ANNOUNCEMENT

Home ownership is the cornerstone of the American Dream. President Clinton's National Homeownership Initiative sets an ambitious goal of 8 million new homeowners by the turn of the century. I'd like to see a spike in rural homeownership put us over the top.

We have a lot of innovative programs. Some folks hammer nails and raise drywall on weekends, helping build low-income housing, and earning sweat equity toward the cost of their own home. And we're stretching scarce federal dollars as far as they'll go through public/private partnerships.

One of the most successful of these endeavors has been USDA's Rural Home Loan Partnership. USDA provides a subsidized mortgage for part of the cost, and a local bank offers a fixed-rate mortgage for the rest.

In its first year alone, this program has helped dozens of low-income rural Americans buy a home ... like the Markgrafs, a family of five in rural Vienna, Ohio. Both husband and wife work hard to make end meets, but they still couldn't get a home loan from their bank. This partnership gave them the boost they needed to move out of a 2-bedroom apartment and into a 4-bedroom house. Last January, they rang in their first New Year in a home of their own.

This is government at its finest. I'm proud to announce today that I will ***double*** the funding for this program in 1997. This will allow the partnership to reach 150 families, like the Markgrafs, and help them live ***their*** American Dream.

RISK MANAGEMENT
For many rural citizens, I know the dream is a farm of their own, and that's even harder to hold on to. This Administration's proposed estate tax relief in our '98 budget, so it's easier to pass the family farm from generation to generation.

But we've also got to do more to address all of the ***risks*** farmers face on a daily basis.

I know there's a good number of you here today from the Dakotas. The blizzards there have caused tremendous cattle loss, and floods are now feared to be just around the corner. USDA's going to be there with assistance as long as we're needed.

We also need to be equipped to help farmers when disaster strikes in the form of weak markets. That's why, during last year's farm bill debate, President Clinton promised you a new safety net. USDA delivered in our 1998 budget.

- We're seeking to expand our revenue insurance pilot programs nationwide.

- We want to eliminate the one-strike-you're-out farm credit policy that disenfranchised a whole class of good farmers who went under in the '80s. They deserve a second chance.

- And, we want to extend commodity loans and allow haying and grazing on conservation reserve land when markets get choppy.

CONCENTRATION
Beyond the safety net, government can also help farmers manage risk by serving as an information broker. No one more than our smaller producers understands that knowledge is power. In the Information Age, our farmers and ranchers need accurate, timely data to be competitive. That's why you see so many computers cropping up on the farm.

Agricultural information has always been critical. In fact, it was the USDA Weather Service that referred two brothers to Kitty Hawk, North Carolina, because of its optimal wind conditions for their aeronautic experiments. The 2 brothers? Orville and Wilbur Wright.

But today, information is more important than ever. It's our great equalizer. Take livestock concentration. Market transparency has been our first line of defense. If small ranchers have accurate pricing information, they've got a better chance at a fair shake in the marketplace.

I know you'd like to see us go further. I haven't said I'm through yet. We're in the midst of a spirited public debate. And I've already said that if voluntary price reporting doesn't give adequate protection to small producers, I will support legislation on mandatory reporting.

We're also looking into poultry concentration, and questioning whether or not it's time to step in and regulate a baseline of fairness in the relationship between large poultry companies and their contract producers. Usually, when a government official says the word 'regulate,' folks pull out the rotten tomatoes. But this may very well be a case of good regulation -- to ensure we have a system that exploits ***no one*** and gives ***everyone*** a fair opportunity. That's ***all*** we ask.

I do have serious concerns about what I see going on out there.

Listen to this quote from an esteemed University of Missouri extension economist: 'The founding of our country was basically an escape from the feudal system in Europe in which the lords owned all the land and the serfs worked it for them. Now we're moving toward an industrial situation where the farmers become wage employees, and the masters are a few large corporations.'

That gets my attention.

Now, we see contracting moving into hogs and row crops where it hasn't been before. It's important that the department actively engage these changes, ask questions, and make sure that family farmers are treated fairly under these new arrangements.

TRADE/VALUE-ADDED CO-OPS

We want to see the same in trade. Last year, ag exports hit a record $60 billion. I know that doesn't mean much if your own wallet's not getting any fatter.

We need to do more to ensure that our smaller producers get a real opportunity to engage world markets. The smaller you are, the harder it can be to compete internationally. That's why the rise of co-ops has been so important. They've evolved from bulk seed buying clubs to sophisticated vertically integrated market-savvy alliances.

While our exports of bulk commodities are expected to drop off slightly in the coming year, growth in value-added exports is expected to continue at a record pace. I'd like to see our smaller producers share more of the rewards.

Value-added's potential is laid out quite clearly in the old Farmer's Prayer. It wonders why cotton's overpriced at 60 cents a pound, while a $20 cotton T-shirt's a bargain. Farmer's aren't getting the full value of their product. The more you control the product -- from the soil to the final sale -- the more profits you can earn.

Obviously, it's easier for the big guys to amass the financial resources they need to have that kind of operation. But co-ops can do the same for smaller producers. Just ask the small cotton farmers down in Littlefield, TX, who pooled their resources to become the biggest U.S. supplier of denim to Levi Strauss. Don't tell them they're out of their league.

This Administration wants to do everything we can to promote these kinds of success stories.

I've designated $1.7 million from the Fund for Rural America to help cooperatives move into or expand their value-added processing. In fact, we're about to start accepting grant proposals.

THE FUTURE OF THE SMALL FARM

We're working hard to expand opportunities for small producers. Just this afternoon, I spoke to all my agency heads, subcabinet officials, and via satellite to our field staff across the country. I was talking primarily about civil rights, but I said that our department has not done enough for small farmers -- not for the past month, not for the past year, not for decades.

It's a personal priority of mine to see that change. I'm also going to establish a national commission on the future of the small American farm.

It's important to me. I ***know*** it's important to you, and it's important to this President. When I see him these days, often the first 2 questions out of his mouth are: What are you doing for small farmers? What are you doing to bring more young people into agriculture?

Those are 2 of the most important questions in agriculture today. USDA needs to come up with better answers, and I hope you'll work with us to do that.

Thank you.

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REMARKS OF SECRETARY DAN GLICKMAN
GOVERNOR'S AGRICULTURE SUMMIT
RALEIGH, NC -- MARCH 10, 1997

INTRODUCTION

Thank you, Governor Hunt. I'm proud to be here in North Carolina. I just want to say that I know these are divisive times here in the Triangle. Some will say it's a state issue, and I really should keep my mouth shut. But when I see neighbor pitted against neighbor, I can't help but say: It's time to heal. It's time to let go of past differences ... It's time to get over yesterday's game.

I'd like to congratulate North Carolina and N.C. State on a battle well fought. The record of North Carolina's college basketball teams this season rivals that of your agriculture -- #1 in tobacco, #2 in hogs, #4 in broiler production ... This is a ***great*** agricultural state.

I feel a bit like the warm-up act. President Clinton will be here on Thursday to talk about education. He picked the right state. Jim Hunt is ***the*** education governor. It's programs like Smart Start that will help ensure America succeeds and prospers in the Information Age.

Governor Hunt, I must say that it's good to be back here under ***brighter*** skies. My last visit was ***not*** as enjoyable. I toured the aftermath of Hurricane Fran, and talked to folks about what USDA could do. We've been here ever since. In fact, we're still here helping restore bridges, roadways and farms. We'll stay as long as we are needed.

We have a strong record of customer service to live up to. Most folks don't know it, but USDA and the Tar Heel State have a long history of cooperation and success. It all started with one letter which I recently pulled from our archives.

It is from a Joseph J. Dosher, U.S. Department of Agriculture, Weather Bureau, Office of the Observer, Station ***Kitty Hawk***, North Carolina.

The letter reads, 'In reply to yours of the 3rd, I will say the beach here is about 1 mile wide, clear of trees or high hills and extends for nearly 60 miles same condition. The wind blows mostly from the north and northeast September and October, which is nearly down this piece of land, giving you many miles of a sturdy wind with a free sweep ... I am sorry to say you could not rent a house here, so you will have to bring tents.'

That last line gives away the fact that this letter is ***slightly*** dated. It was written on August 16, 1900. The recipient? A Mr. ***Wilbur Wright***, owner of Wright Cycle Company, Dayton, Ohio.

The rest, as they say, is history.

I'm proud of the fact that when the Wright Brothers needed a big gust of wind, USDA delivered here in North Carolina ... I just hope the same's not said of me after this speech.

Standing atop Kill Devil Hill, the Wright Brothers probably looked more like ***dare***devils than the fathers of modern aeronautics. Even they'd probably have a hard time envisioning today's jumbo jets ferrying hundreds around the world, or the space shuttle taking a man to the moon.

But those events are ***commonplace*** not 100 years later. In 20th century America, progress and change have outpaced our greatest expectations. That's certainly true in agriculture.

America started the century a ***nation*** of farmers. Most folks worked the land, but mainly it was just enough to feed our families. Today, less than 2% of us farm. The police have their 'thin blue line.' Agriculture's 2% are our 'thin green line.' They help feed the world.

Basic laws of nature will prevent us from ever reaching the Star Trek phase -- where a computer instantly offers whatever food we ask for. But we're close. For most Americans, safe, abundant, affordable food is a ***constant*** in life ... so reliable it's simply taken for granted.

That security and peace of mind is, of course, a ***stark*** contrast to farm life. Agriculture ***is*** risk and uncertainty. Farmers and ranchers stare down from Kill Devil Hill ***every day.***

You never know when a hurricane's going to turn your barn into perfectly stacked firewood or a flood's going to replant your cotton crop 2 counties over. But we ***do*** know, and all America should know, that our farmers and ranchers perform the most essential work around.

Your success is in the national interest. That's one reason we ***have*** a USDA. With all the changes taking place in agriculture -- from freer trade, to technological breakthroughs, to free-market reforms and an increased focus on conservation -- we need to work more closely together than ever before to minimize risks and maximize opportunities.

TOBACCO ANNOUNCEMENT
1996 saw a sea-change in farm policy. The Farm Act replaces deficiency payments with lump sum, gradually declining, market transition payments. That was a ***dramatic*** and very positive change that unleashed the full market potential of U.S. agriculture.

But it's not been without its kinks. I know that tobacco farmers, in particular, have been put in a bind by production flexibility contracts. Because of the way the law was written, you've not been able to combine contract and non-contract farms. That's not an acceptable position to put you in. You need more flexibility to rotate your crop acreage. Today, I'd like to announce that I've made an exception on combining contract and non-contract farms for flue-cured tobacco purposes ***only***. By the end of this week, your FSA office will have the details.

SAFETY NET
Government is easing out of the marketplace, and that's a good thing. But it must never mean that government ducks its responsibility to help farmers manage risk -- whether it comes in the form of a powerful hurricane or a weak market.

President Clinton promised farmers a ***new*** safety net. USDA's proposal would:

- expand USDA pilot revenue insurance programs nationwide;
- end the one-strike-you're-out farm credit policy; and
- allow commodity loan extensions and haying and grazing on conservation reserve land when markets get choppy.

None of these proposals bust the budget. In fact, they're all accounted for in the President's balanced budget plan.

Government can also help as an information broker -- on new research, new markets, new conservation techniques -- and by giving straightforward assessments of all the new risk management tools (crop and revenue insurance, new futures and options products, forward contracts).

REORGANIZATION
It's a more hands-off role for the federal government, but it's an important role. It requires a strong USDA.

I know that many of you have heard rumors about office closures in the Farm Services Agency. For the most part, they are just that -- rumors. I have made no decisions yet as to which offices will close and which will stay open, and I want you to hear from me today that those decisions will only be made after I've talked to Governor Hunt and Members of Congress.

There will be no surprises.

I'd like to also make clear that we are not zeroing-in on FSA. We'll take a hard, fresh look at the entire field structure, including both the Natural Resources Conservation Service and Rural Development. I'm committed to preserving an ***effective*** field structure, and my bottom line will be customer convenience ... ***your*** convenience.

USDA's reorganization will save taxpayers about $8 billion, and make a sizable contribution to President Clinton's effort to balance the federal budget. I don't see any other way of reaching that goal without cutting into market transition payments, which this Administration will not do.

We should recognize the fact that farm programs have changed dramatically since FDR first created the county field structure. USDA has to change, too. We need to refocus on the challenges of the future, not the programs of the past.

APHIS HUB ANNOUNCEMENT
One challenge ahead is to more effectively use science to strengthen all aspects of agriculture.

One way we do this is by more closely linking USDA services with the forward-thinking research that's going on in government, our universities, and the private sector.

As many of you know, USDA's Animal and Plant Health Inspection Service has been planning for some time to consolidate its 13 regional offices into 2 hubs -- one in the east, one in the west.

I know the location of the ***eastern*** hub has been of particular interest to you. I can't think of a better place to build for agriculture's future than right here in Raleigh.

APHIS already has a research lab nearby in Oxford. Our Plant Protection and Quarantine Program's Plant Health Center is already here. But most importantly, APHIS and the State of North Carolina have a strong history of cooperative achievement. In the '80s, we eradicated the boll weevil. We're now closing in on witchweed.

The Raleigh hub will allow us to apply that same teamwork to tomorrow's challenges: whether it's cutting through phony science trade barriers, improving disease prevention or using the latest technology to eradicate pests.

And, the Raleigh hub will once and for all establish the work being done at Centennial Campus and throughout the Research Triangle as on the cutting-edge of agricultural advancement.

I don't have a street address for you yet. There's a separate process now getting underway to determine the exact location of the hub. But over the next 2 to 4 years, 6 of our APHIS regional offices and 150 jobs will move here. The western hub will be in Fort Collins, Colorado, and will work closely with Colorado State University.

EQIP ANNOUNCEMENT
Another challenge ahead is to better protect the land that feeds us. That's something Governor Hunt's been leading the way on. The cost-sharing initiatives he's started here are setting the national standard for state conservation efforts.

Governor Hunt's carrying on a strong legacy. North Carolina's own Hugh Hammond Bennett was the father of the modern conservation movement in agriculture. He was the founder of the Soil Erosion Service -- now NRCS -- as well as the conservation district movement back in the '30s -- when dustbowls gave us all a somber warning that we could push the Earth too far.

Locally-led conservation is the wave of the future. USDA's devoting tremendous resources to these efforts.

I'm sure you've heard about the new Conservation Reserve Program. It's a ***true*** conservation program. It focuses solely on preventing soil erosion, protecting wildlife habitat and improving air and water quality. It will no longer take healthy land out of production, but accept only the most environmentally sensitive land.

I don't see major geographic shifts under the new CRP -- certainly not here in North Carolina. Most CRP acreage here *is* highly sensitive. Much of it's also been planted to trees, which is a plus under the new program, because it offers benefits beyond the life of the contract.

We also now have the Environmental Quality Incentives Program which will help family-sized farmers and ranchers address priority natural resource and environmental concerns. EQIP's particularly important in places like North Carolina because it's the first major recognition that the federal government should put its money where its mouth is and help family-sized livestock operations address environmental concerns.

Under EQIP, USDA can provide up to 75% of the costs of certain conservation practices, like better nutrient, manure, irrigation water, wildlife and integrated pest management practices. USDA has designated $3.9 million in EQIP funds for North Carolina's producers. EQIP sign-up will take place later this Spring, after the CRP sign-up is completed on the 28th.

Government should be a strong partner to local efforts to protect important natural resources, like the Neuse [NOOSE] River. EQIP funds will be available to farmers in the Neuse River Basin. But USDA wants to do more. I will provide additional funds for technical assistance for the state's 'planned intervention' project -- to work on a basin or watershed basis to help entire farms develop best management practices and meet the state's goal of 30% nutrient reduction.

The new CRP can help improve water quality in the Neuse Basin through our continuous sign-up for buffer strips, grass waterways and riparian areas. I encourage all of you to talk with the folks at your local USDA Service Center about what you can do to protect your land, and what USDA can do to help.

TRADE

No vision of our future is complete without a look around the world. This Administration's done more than any other to open doors for America's agricultural products. Today, when people around the world buy American, more than any other product they buy American agriculture ... including North Carolina tobacco, cotton, soybeans, poultry, pork and beef.

North Carolina is well positioned to succeed in the global economy. Between '94 and '95, your exports shot up 27% to $1.4 billion. We don't yet have the full figures for '96, but we have some pretty strong indicators. North Carolina had a 16% increase in broiler exports last year. U.S. poultry's expecting a 12% growth year ahead.

U.S. pork export demand rose sharply in '96, most of the export growth coming out of North Carolina. Soybeans look very bullish. Despite 3 hurricanes, North Carolina tobacco saw a 21% increase in yields last year. Then a warm summer took your cotton almost to the million-bale mark -- the highest since 1926.

This Administration's going to keep pushing doors open for you. We'll continue aggressively challenging phony science trade barriers wherever they crop up. We'll make sure that we have agriculture trade concessions from China ***before*** they enter the WTO. We'll push hard for freer and fairer agricultural trade in the '99 round of GATT negotiations. And we want to extend NAFTA further south of the border into the high-growth markets of Latin America. Many countries already have trade agreements there. We need one quickly to stay competitive.

With global populations and incomes on the rise -- especially in the Pacific Rim and Latin America -- there's a ***world*** of opportunity out there, ***if*** we choose to embrace it. We should. It's no coincidence that ag exports and farm incomes are setting simultaneous records. America's farmers and ranchers are succeeding in the global marketplace.

It reminds me of the old joke about the chickens out scratching in the yard. A football's accidentally kicked over the fence. The rooster struts over, inspects it, turns to the hens, and says, 'I don't mean to criticize, but look what they're puttin' out next door!'

America's got the football, and we're running with it. We're setting the world standard -- on productivity, on quality, on safety -- in every aspect of agriculture.

CONCLUSION

You know, I look at how strong North Carolina agriculture is. I look at how strong your economy is, under the leadership of Governor Hunt, and I see America's future here in North Carolina. It's a ***bright*** future that includes a new era of farm prosperity.

In preparation for coming here, I looked up your state motto. I'm not going to even ***try*** and say it in Latin, but it roughly translates as 'to ***be*** rather than to ***seem***.' I think that's something most folks in agriculture can appreciate. There's no fudging our success. It's measured in bales produced, tons exported, mouths fed.

In the past few years, we've enjoyed a great deal of success, despite adversity. But there is still so much potential. We can harness it together, and ensure agriculture's future surpasses even its own stunning history.

Thank you.

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THE SECRETARY OF AGRICULTURE
WASHINGTON
20250-0100

MEMORANDUM FOR THE PRESIDENT

FROM: Secretary Dan Glickman

SUBJECT: First Term Accomplishments and Second Term Agenda for the Department of Agriculture

During your first term, the Department of Agriculture focused on four areas: 1) providing a reasonable economic safety net for farmers and all rural Americans; 2) enhancing the goal of sustainable management of our natural resources; 3) assuring a safe, affordable and nutritious food supply; and 4) reinventing USDA.

ACCOMPLISHMENTS

I. Providing an Economic Safety Net for Farmers and Rural Americans

Expanding Trade Opportunities for Agricultural products: Creating strong global demand for U.S. agricultural products has been critical to the recovery of the agricultural sector from its financial crisis of the 1980s and exports have increased dramatically, establishing new records in FY95 and FY96 at $54 and $59 billion respectively. This is a 50 percent increase over 1992 and double the level of 10 years ago. Noteworthy accomplishments include opening markets in both China and Japan for Washington, Oregon and Idaho apples as well as opening the Japan market for U.S. rice. The department also expeditiously resolved the Russian poultry crisis as well as Karnal bunt wheat crisis. In 1996 alone, U.S. agricultural exports supported 1 million jobs, on third of which were located in rural areas.

Implementing a Reformed Federal Crop Insurance Program: In 1994, the Administration won passage of the Federal Crop Insurance Reform Act, which did away with crop disaster aid and required producers to purchase crop insurance in return for income supports which doubled the number of policies and expanded insured acres by approximately 220 million acres. While the 1996 farm bill weakened the requirement to purchase crop insurance, producers are still buying large amounts of crop insurance coverage as a result of the Administration's initiative.

Implementing the 1996 Farm Bill: In under seven weeks, the department enrolled nearly 99 percent of eligible producers in the new farm bill.

Expediting Technology Transfer: The Department worked with private sector partners in over 650 instances to develop technologies that were transferred to private industry for commercialization. Products currently available as a result of this effort include BioSave, a natural protection for fruit rot; ASPIRE, a biological control against post harvest diseases of apples and pears; BioVector-355, Devour, and VectorMC, products based on a method to control pests in a variety of settings from citrus groves to golf courses.

Livestock Concentration: To ensure that family farmers get a fair price for their products, USDA created an advisory committee comprised of producers, industry representatives, and academicians to investigate the effects of concentration and various pricing arrangements in the meat packing industry on producers' prices. USDA is beginning to implement the committee's recommendations. In addition, USDA filed an administrative action under the Packers and Stockyards Act against IBP, alleging that the packer gives an undue or unreasonable preference to one group of feedlots and subjects others to an undue or unreasonable disadvantage through certain procurement practices.

Providing Credit to Beginning Farmers: The agency has increased the number of farm loans provided to beginning farmers over the last few years, increasing them by 56 percent in FY96 alone.

Water 2000: The Water 2000 initiative, which strives to bring safe, affordable and reliable drinking water to the estimated at-risk 2.5 million rural Americans, has provided nearly $70 million in loans and grants, leveraged with another $20 million from local governments and private partners, for a total of over $90 million. About 50,000 households and over 145,000 rural Americans will benefit from this Administration Initiative.

President's National Homeownership Initiative: The Department's Rural Housing Service is a key player to your National Homeownership Initiative. After four years of dramatic decline in rural home ownerships, 1995 saw a rise of over 1 percent. The Expanded Guaranteed Rural Housing loan program has assisted families that previously could not qualify for existing home loan programs and, during the past three years, the number of guaranteed rural housing loans has increased by 335 percent over the previous three year period.

Rural Homelessness: The rural housing Service, in response to the Administration's homelessness conferences, directed field staff to become a part of state and local homeless coalitions and to work with organizations serving the homeless to use RHS's mainstream housing programs to serve homeless rural persons and families. RHS has helped in identifying vacant rental units and has set aside $2 million under its very low-income home ownership program for homeless families who are prepared to won their own homes.

The Rural Empowerment Zones and Enterprise Communities Initiative (EZ/EC): The Administration has designated 30 rural enterprise communities and three rural empowerment zones to support education and increase employment for farmers and other rural Americans.

USDA gas set aside $115 million in 1995 and 1996 for the rural EC/EZ's to enhance employment, education and opportunities for rural Americans.

Expanding Rural Businesses: In FY96 alone, USDA provided more than $955 million in guaranteed funds for economic development in rural areas, creating 7,381 new jobs and saving 16,416 more.

Information Superhighway for Rural Americans: USDA is a major participant in the Administration's National Information Infrastructure Superhighway initiative. In the last four years, the amount of loans USDA has approved for advanced telecommunications facilities has more than doubled. In FY95 alone, a subsidy of only $4.8 million generated $585 million in Federal loans and loan guarantees which will leverage an additional $2.6 billion of private investment, resulting in a total investment of $3.2 billion in rural telecommunications infrastructure, improving service for 75,000 families, installing over 8,000 miles of fiber optic facilities, and purchasing nearly 200 new digital switches.

Revitalizing Pacific Northwest Rural Communities: As a result of the creation of your forest plan in the Pacific Northwest, the economic assistance component has created, retained and expected-to-be-created nearly 15,000 jobs region wide. Additionally, the Administration has provided approximately $550 million in economic assistance to the region.

II. Sustainable Management of Natural Resources

President's Northwest Forest Plan: Your plan continues to be successful in meeting its goals. The Forest Service estimates that it will meet its 1.1 billion board feet target by the end of FY97.

Embracing Ecosystem Management: The Forest Service initiated this approach beginning with your Pacific Northwest forest plan and it continues to evolve as it develops plans for the Tongass, the Columbia River Basin area (75 million acres), and for the majority of forests in California. NRCS, the agency which helps private landowners conserve water and soil with the help of local conservation districts, is implementing its programs on a broad watershed, ecosystem basis rather than the more localized approach. Also, much improved interagency collaboration with Interior and Commerce Departments is making the adoption of ecosystem management take hold faster.

Conservation Title of the 1996 Farm Bill: With the leadership of your Administration, the farm bill contains the most progressive conservation program in history. Its focus is to provide a wide array of conservation program tools for private landowners, including education, technical and financial assistance. Tools, such as the Conservation Reserve Program, which now has approximately 36 million acres enrolled in 10 year contracts to preserve soil, which also benefits to water quality and wildlife, will continue under the new farm bill. The farm bill also created the $200 million per year Environmental Quality Incentives Program, which provides technical and financial assistance to help farmers and areas of states with major environmental problems.

Improving Water Quality: Under this Administration, we now have a no net loss of wetlands due to agricultural production. In fact, we may have a net gain in the coming year. The Wetlands Reserve Program has enrolled 400,000 acres of cropped wetlands and the Swampbuster program, since its inception in 1986, has precluded the draining of remaining agricultural wetlands. The Administration has proposed that the Conservation Reserve Program enroll additional cropped wetlands to return them to their natural status for the life of the contract and the Department has embarked on an ambitious plan to enroll more filterstrips and riparian buffers along rivers, streams, and large water bodies in the CRP and other programs. All of these efforts, coupled with the promise of state money and increased emphasis on maximizing private partnerships and funds, will mean cleaner water in the years to come.

Saving Wildlife: All of the department's conservation programs, including the ecosystem management approach, will enhance and save wildlife on private and public lands. In addition, the Department continues to work on an interagency basis with states and private parties to develop conservation plans that people and companies in a region will follow in return for "safe harbor" from the Endangered Species Act. To date, we have several agreements with timber companies in the Pacific Northwest and are working with other private landowners and the states in that region on similar agreements to protect fish habitat. USDA also participated in reintroducing wolves in Minnesota and Montana.

Alternatives to Hazardous Chemicals: Over the last four years, USDA has made substantial progress in replacing the environmentally damaging chemical, methyl bromide, which is a crop fumigant used heavily on fruits and vegetables particularly in California. Research for replacing other environmentally damaging chemicals remains a high priority.

Pest Management: In an effort to balance food production with environmental protection, USDA continues its research and on the ground application of Integrated Pest management strategies. USDA has researched and promoted natural enemies to crop pests. For instance, in one study in Texas, 20,000 jobs were saved and more than $1.5 billion in pesticide applications was avoided in only one year using natural pests.

III. Assuring Safe, Affordable, and Nutritious Food Supply

Meat Handling and Inspection Overhaul: In response to major food-borne illnesses in early 1993, USDA has required instructional cooking and handling labels on raw meat and poultry products; initiated a nationwide e.coli sampling program in federally inspected plants and retail stores that process raw ground beef; elevated food safety responsibilities to a new sub-cabinet office; and most importantly, as you announced last summer, has replaced the 100 year old meat inspection system from a command and control, "sniff and poke" system with one that is science based and founded on the Hazard Analysis and Critical Control Point system with an emphasis on testing for bacteria in plants that slaughter and grind meat and poultry.

Reducing Risks to Consumers: USDA's research branch continues to pursue new food-borne illness testing technologies to improve accuracy and reduce the time needed for test results. New technologies are also being developed and studied by USDA and the private sector to reduce further the level of pathogens entering the food supply, such as e. coli and salmonella.

Food Recovery: Using the Americorps and many other volunteers and organizations, USDA is leading a national effort to recover more food that would otherwise be thrown away. As you announced last month, you signed into law a bill that provides clarifications and limitations on food donor liability. USDA is working with states and private entities to give direction in this effort.

School Meal Initiative: To improve the popularity and nutritiousness of school meals, USDA overhauled the national school lunch and breakfast programs for the first time in 50 years. New dietary guidelines will upgrade the nutritional quality of meals served. This effort will improve the long-term health, increase life expectancy, and lead to taxpayer savings of between $4.4 billion and 26.5 billion over 20 years. In addition, USDA has worked to ensure that commodities purchased and provided for the feeding programs will promote healthful diets.

Team Nutrition: In addition to upgrading nutrition requirements for school lunches, USDA launched Team Nutrition to educate children, parents, school staff, and school lunch workers about the importance of healthful eating. The program has reached over 50 million children in 94,000 schools with the help of thousands of volunteers, professionals and corporations, such as Walt Disney. Also, through the extension service, such as 4-H activities, millions of youth across the country learn about healthy living, including increasing self-esteem, developing problem solving skills, and learning about agriculture's contribution to society.

Linking Scientific Research to Consumer: USDA created the Center for Nutrition Policy and Promotion to link scientific research to the consumer. The Center conducts applied research and analysis in nutrition and nutritional status, dietary guidance, and nutrition education.

Full Funding for WIC: The Administration, through USDA, continues to request for full funding of WIC and participation has expanded by 25 percent over the last three years.

Food Stamps: The Administration successfully fought back the block granting of food stamps which would have drastically weakened our national nutrition safety net. The food stamp program is reaching over 10 million families or 25 million people.

IV. Reinvention Efforts and Saving Money

Electronic Benefit Transfer for Food Stamps: You set a goal of using electronic benefit transfer for food stamp delivery in all states and 14 percent of food stamp households now receive benefits through EBT, compared with 2 percent in 1993. Thirteen states have EBT systems in place now and 24 more states will implement EBT in the next two years. This will cut down on fraud and abuse as well as same million in administrative costs.

Welfare Reform: To provide states with needed flexibility, USDA has approved nearly 700 state requests for food stamp regulatory waivers and has approved 34 welfare reform demonstration projects and is working with the Administration to implement the new welfare reform bill.

Fighting Food Stamp Fraud: USDA developed with its OIG and obtained passage of the Food Stamp Anti-Fraud Initiatives, which included stiffer penalties against violators. These initiatives will save millions and help sustain support for such an important program.

Reduced Food Stamp Program Error Rates: USDA embarked on a major initiative to improve the payment accuracy in the food stamp program. As a result the error rate has dropped significantly saving taxpayers $350 million.

Single Family Housing Loans: The single family housing loan program (DLOSS) has recently been announced that will centralize the mortgage process from USDA field offices all over the country to one central location. This will affect 650,000 borrowers. Streamlining will improve customer service, reduce loan delinquencies, and will save taxpayers more than $250 million over the next five years and $100 million every year thereafter.

Dairy Bid-rigging, Suspension and Debarment: Through USDA's aggressive efforts, it has suspended or debarred 72 companies and individuals guilty of bid-rigging or other illegal activities. Many more are being investigated. These efforts will save up to a record of $75 million annually.

USDA Reorganization and One-Stop Shopping for Farmers: Your administration won passage of the department's reorganization which has reduced the number of agencies from 43 to 29. USDA is on track to reduce staff years by 10,000, already saving $900 million. By 1999, USDA will save more than $4 billion. USDA's county offices and research stations are being closed in many areas and those that remain open are being co-located with other agencies to improve efficiencies and provide one-stop shopping for farmers and other customers. In short, all of the department's agencies are undergoing partial to massive streamlining and restructuring to cut down on staff years and costs.

Regulatory Reform Initiative: In response to your call to reduce red tape, USDA has eliminated 80,000 pages of forms and 61,183 internal management regulations, which is a 51 percent reduction. For example, regulations and applications for rural development loan programs have been significantly streamlined and as a result received the Vice President's Hammer Award.

SECOND TERM AGENDA

Below is a list of ten priorities for the second term; they are listed in order of importance and fit into the four broader objectives of providing a safety net for rural Americans; managing natural resources responsibly; assuring safe, nutritious, abundant food with special attention to the needs of the poor; and reinventing government while saving money.

I. MANAGING NATURAL RESOURCES

USDA's goal in the second term should be to implement and popularize imaginatively the Department's new conservation programs among all eligible private landowners. This Administration can go down in history as making the greatest strides in protecting the environment on private lands using voluntary, cooperative programs that participants, communities and states will come to rely upon to solve wide ranging and localized environmental problems. Just this year, USDA will place in the Conservation Reserve Program 20-plus million acres. These decisions, as well as implementation of the Environmental Quality Incentive Program and other farm bill provisions, mark the transformation of the Department from a commodity-program based agency to one with a conservation base.

With regard to public land management, this Administration's legacy of managing on an ecosystem wide basis and for multiple uses must be more firmly established. The salvage rider precluded much progress in this area over the last two years. This Administration's overall goal must be to exterminate, once and for all, the past management practices which emphasized heavy commodity production at the expense of other uses and needs of public lands. Over the next four years, USDA wants to emphasize the recreational value of public lands to increase their base of public support across the country for wise use of these forests. Lastly, administrative changes should be made in the way the federal government manages fire on forests.

II. RURAL DEVELOPMENT

The department's goal in the second term is to ensure that rural Americans have the ability to take advantage of the same opportunities for economic growth that exist in urban areas. Rural America continues to be the stepchild of economic growth and recovery. Enough groundwork was laid in the first term to provide a solid foundation for a lasting legacy to improve the lives of rural Americans and bolster economic opportunities to the main streets of rural towns. Affordable housing and updated infrastructure and technology continue to be the fundamental building blocks of economic development in rural areas.

The Administration should propose expanding the lending authority of the Farm Credit System to more rural areas. With regard to rural housing, USDA has a series of reforms to these programs to implement, but it is facing severe funding shortages in them this year. USDA's Water 2000 and EC/EZ initiatives are very popular in communities and will continue. More attention to the Department's information technology-related programs — distance learning, for example, and telecommunications technology transfer -- will continue as well. USDA plans to use the Fund for Rural America authorized in the 1996 farm bill to provide seed money for private capital leveraging to continue funding some of these technology and infrastructural initiatives.

III. HUNGER

The department's goal in the second term should be to ensure that no child goes to bed hungry at night in this country. The ramifications of the welfare reform bill will likely increase hunger at home while the hungry of the world continue to suffer. The department will focus imaginatively on these issues beyond the normal routine business.

The department's food recovery efforts need continued attention and expansion to help feed people, particularly those locked out of welfare. The Administration should also consider expanding school feeding programs to after-school activities on or off school grounds for the needy. On the international side, the World Food Summit should be the launching pad for a sustained effort to fight hunger around the world.

IV. MANAGING THE DEPARTMENT

USDA's goal in the second term is to strengthen the implementation of streamlining and downsizing as well as the management of technology across the department. Also, the department will focus heavily on improving its management of civil rights issues and cases. The civil rights agenda the agency has begun holds great promise for all employees, but more attention needs to be given to it by the upper management of the agency, especially while downsizing and restructuring, to make it a lasting legacy.

Over the last year, USDA has been making progress on strategic planning and management and over the next four years it will be heavily emphasized and implemented. With decreasing budgets, the agency needs to analyze the continued need for certain functions in all agencies and this can only be done through planning.

V. RESEARCH

The agency's goal in the second term is to modernize the department's research — make it more responsive to its customers, internal as well as external — and maintain its stature as a government leader in agricultural research. The department has one of the most prolific, productive research operations in government. However, with budget reductions compounded with expanded responsibilities to respond to a whole host of problems, from food safety to nutrition research, the agency needs to prioritize and maximize its resources.

The agency will encourage the review boards implemented as a result of the farm bill to be bold in their recommendations in preparation for congressional oversight and expected legislation.

The agency's programs ought to venture into new areas: a human nutrition initiative being an excellent example. The department will pursue linking the Fund for Rural America to research in rural development, natural resource policy, and hunger to increase its contribution to solving other problems.

VI. RISK MANAGEMENT

The agency will continue to develop a menu of products and services -- in consultation and with the cooperation of the private sector — that permit farmers to fashion effective safety nets to absorb the risk protection functions that traditional farm programs assumed. Risk management is the future of production agriculture as witnessed by the popularity of some of its new crop revenue coverage insurance policies. The department has a role in raising this infant industry and will seize the opportunity.

The department will be playing a critical role in educating farmers about these new risk management tools in addition to educating them about other market products using land grant universities, the Internet, and other outreach mechanisms through the private sector. In addition, educating beginning farmers, who are the most vulnerable to unfavorable market and weather swings, as well as providing them access to the agency's credit programs, will be a high priority over the next four years.

VII. TRADE

The department will become American agriculture's number one salesman -- opening markets, expanding existing ones, and fighting barriers. Agriculture's growth and prosperity counts on it. The agency will continue fighting individual battles, like hormone bans, genetically modified organisms, and poultry restrictions. The agency's larger agenda includes opening Asian markets through the Asia Pacific Economic Cooperation talks, for example. When agency heads travel, more emphasis will be placed on securing actual agreements with host governments or companies so it has concrete deliverables at the end of each trip.

VIII. CONCENTRATION

USDA should ensure that small and medium-sized farmers and companies are not victimized by the large and that the playing field remains level for all. The advisory committee on concentration has advised the department to make a number of administrative changes. While it has embraced a number of recommendations, the department will move ahead with another announcement of regulatory and administrative actions and possibly create a legislative package to address the remaining issues.

IX. FOOD SAFETY

The department will continue its emphasis on ensuring Americans have the safest food supply in the world. The rules that the department finalized last summer need to be implemented and it will continue to focus on sound implementation. Communicating with the public on safe handling of raw meat will also continue to be a priority as well as researching and identifying pathogens and where they enter into the production and slaughtering of animals.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

On April 30, 1996, you announced a five-step program to assist the U.S. cattle industry respond to low cattle prices, high feed costs and drought-reduced forage supplies. One step was a commitment to examine the credit needs of cattle producers and report any recommendations for leniency. Enclosed is that report, "Assessing the Credit Needs of Cattle Producers".

This report concludes that the current situation is difficult but manageable, provided weather permits a rebound in feed production and supplies and cattle prices continue improving as expected. Policy actions taken to date combined with the Department of Agriculture's (USDA) credit programs will help meet producers' credit needs for the remainder of 1996. However, there is a risk that conditions could deteriorate. If poor weather or other factors continue the cost-price squeeze during much of 1996, the financial pressure on cattle producers will escalate, increasing the need for additional policy and program response. The report recommends that USDA should continue to monitor grain, forage and cattle conditions for signs of rising financial stress. This monitoring should be done on a regular basis; it should use the most timely available data; and it should be done in concert with other Federal agencies that have jurisdiction and other entities that can provide useful information. If financial conditions deteriorate, additional actions should be considered.

Sincerely,

DAN GLICKMAN
Secretary

Enclosure

ASSESSING THE CREDIT NEEDS OF CATTLE PRODUCERS

A Report to the President

U.S. Department of Agriculture
June 6, 1996

Assessing the Credit Needs of Cattle Producers

Executive Summary

Cattle Market Developments ...

- The cattle market is currently under significant financial pressure due to a combination of long-term trends and short-term developments. Cattle prices have been falling since 1993 because of unusually large increases in beef production and record supplies of competing meats. The problems caused by large production worsened in 1996, with meat production up 5 percent and beef production up 7 percent during the first quarter. Low cattle returns during late 1995 and early 1996 led many producers to reduce herds, scaling back production capacity for late 1996 and 1997.

- Several developments have exacerbated the cattle market conditions. Strong export demand for corn and soybeans, poor weather, lower grain yields per acre for 1995 and for 1996 winter wheat and low stock levels have raised feed costs sharply in 1995 and 1996. Forage crops, particularly in the southwestern quadrant of the country which accounts for one-fourth of the cattle herd, have also been poor. Some operators in this region are experiencing a third straight year of poor weather and a combination of grain, forage and livestock losses.

- Seasonal lows for cattle prices were likely made in the early spring, with cattle coming out of feedlots (fed cattle) priced in the mid-$50's per cwt and cattle entering feedlots (feeder cattle) near $50. The large beef and competing meat supplies reduced fed cattle prices. This, in turn, combined with record-high grain prices and drought to reduce the prices feedlots would pay for feeder cattle. Adjustments to ease the cost-price squeeze are underway as cattle numbers are being reduced and high feed prices are reducing foreign demand. With more normal weather, this fall's harvests will relieve some of the tightness in feed grain supplies. By this fall, cattle prices are expected to rise 10 to 20 percent from this spring's lows.

Cattle producer financial conditions ...

- The financial pressure on cattle operations varies widely. Commercial-sized operations ($50,000 or more in annual sales) which received a majority of farming income from cattle likely face the greatest stress from the current cattle market conditions. These 76,000 commercial-sized beef farms represented about 7 percent of all farms with beef cattle but accounted for 38 percent of the year ending cattle inventory in 1995. The other 1,042,000 farms with cattle generally have a broader mix of farming activities or sufficient off-farm income to make them less dependent on the cattle market.

- Overall, U.S. commercial cattle producers started 1995 in a relatively favorable financial position. Only 4 percent were vulnerable to failure, that is, they had negative farm income and high debt-to-asset ratios. These operators face the prospect of liquidating assets in a weak market or attempting to borrow more when debt-to-asset ratios are already high.

- Cow-calf operations--the operations that produce feeder cattle--continue to be affected the most by the low prices, particularly in the drought-plagued Southwest, Cow-calf producers are likely to lose $50-$60 per head this year. Financial pressure on feedlot operators have been eased by the sharp drop in feeder cattle prices and the use of forward contracts to lock in prices. Prospects for cow-calf producers going into 1997 appear to be improving due to expected higher fed-cattle prices and lower feed costs.

- Commercial cattle producers in the southwest (Arizona, New Mexico, Texas and Oklahoma) started 1995 in a weaker financial position than in other areas. At that time, 16 percent of the 18,000 producers in this region had high debt-to-asset ratios and insufficient cash flow to cover operating expenses and loan payments; that share could double in 1996.

Status of Lenders ...

- Commercial banks hold over 40 percent of the total farm debt owed by commercial beef farms and over 70 percent of their debt that is for farm operating and other nonreal estate purposes, which is less secure than real estate debt. Banks also hold the largest portion of debt to farms that are vulnerable to failure. USDA's Farm Service Agency (FSA) holds only about 5 percent of the nonreal estate debt but also has guaranteed a portion of the loans originated by banks and others.

- Historically, deteriorating farm financial conditions have a lagged impact on agricultural lenders which is just beginning to register. Farm lenders nationwide and in major cattle producing regions ended 1995 in sound financial shape. First quarter 1996 information suggests some isolated bank problems may be emerging, particularly for small, rural banks with a significant share of their portfolio in agricultural loans, however, there is no evidence of a lender financial crisis.

- A survey by FSA completed in May 1996 found 26 percent of FSA's direct loan cattle borrowers were delinquent on their accounts. This compares with FSA's entire direct loan portfolio which had a 28 percent delinquency rate. Guaranteed cattle loan borrowers had a 1.6 percent delinquency rate compared with 3 percent for all guaranteed borrowers.

- The capital positions and income levels of commercial banks and the cooperative Farm Credit System are at near-record levels. These healthy conditions will enable them to accommodate many cattle producers who may need to restructure debts.

Administration response ...

- The administration has implemented a series of actions during 1996 to augment feed and forage supplies and to stabilize cattle markets. These actions have ranged from expanding beef demand through export programs and beef purchases for domestic food programs to permitting haying and grazing on Conservation Reserve Program acres to allocating additional funds for USDA's Emergency Loan Program. In addition, the Office of the Comptroller of the Currency encouraged lenders to work with producers affected by drought and that prudent efforts to adjust or alter terms on existing loans should not be subject to examiner criticism.

- The current situation is difficult but manageable provided weather permits a rebound in feed production and supplies and cattle prices continue improving as expected. Policy actions taken to date, combined with FSA's loan programs, will help meet producers credit needs for the remainder of 1996. However, there is a risk that conditions could deteriorate. If poor weather, strong feed grain demand or large livestock liquidations maintain the cost-price squeeze during much of 1996, the financial pressure on cattle producers will escalate and expand to a much larger portion of the nation, increasing the need for additional policy and program response. The USDA should continue to monitor grain, forage and cattle conditions for signs of rising financial stress. This monitoring should be done on a regular basis; it should use the most timely available data; and it should be done in concert with other Federal agencies that have jurisdiction and other entities that can provide useful information. If financial conditions deteriorate, additional actions should be considered.

Assessing the Credit Needs of Cattle Producers

Cattle Market Conditions

Drought and record high corn prices have altered 1996 beef production patterns expected at the beginning of the year. First quarter production was up 7 percent, above the expected 4 percent rise. Second half production is now expected to be down 1 to 2 percent, whereas it was expected to rise somewhat. The largest year-to-year increases in production are already behind us, with year-to-year increases slowing this quarter. Production during the second half of the year is expected to decline from a year earlier due to declining feedlot placements brought on by high feed costs and low fed cattle prices. Beef production for the whole year is now estimated at a little over 1 percent above last year.

Slaughter of steers and heifers this summer through winter is expected to move below a year earlier levels, although slaughter weights will remain heavy. Cow slaughter will remain above a year earlier until fall, as feeder cattle prices remain under pressure from high grain prices. Beef production this summer is expected to rise less than seasonally and be about 2 percent below the large levels of a year earlier. Fall production may be little changed from a year earlier, particularly with beef cow slaughter holding at last year's level.

Seasonal lows for cattle prices were likely made in early spring with fed cattle prices averaging in the mid-$50's per cwt and prices for yearling feeder cattle averaging near $50. Prices rose to near $60 in May and are likely to remain in the low $60's through summer. Fall prices are expected to average in the mid-$60's as beef supplies continue to tighten.

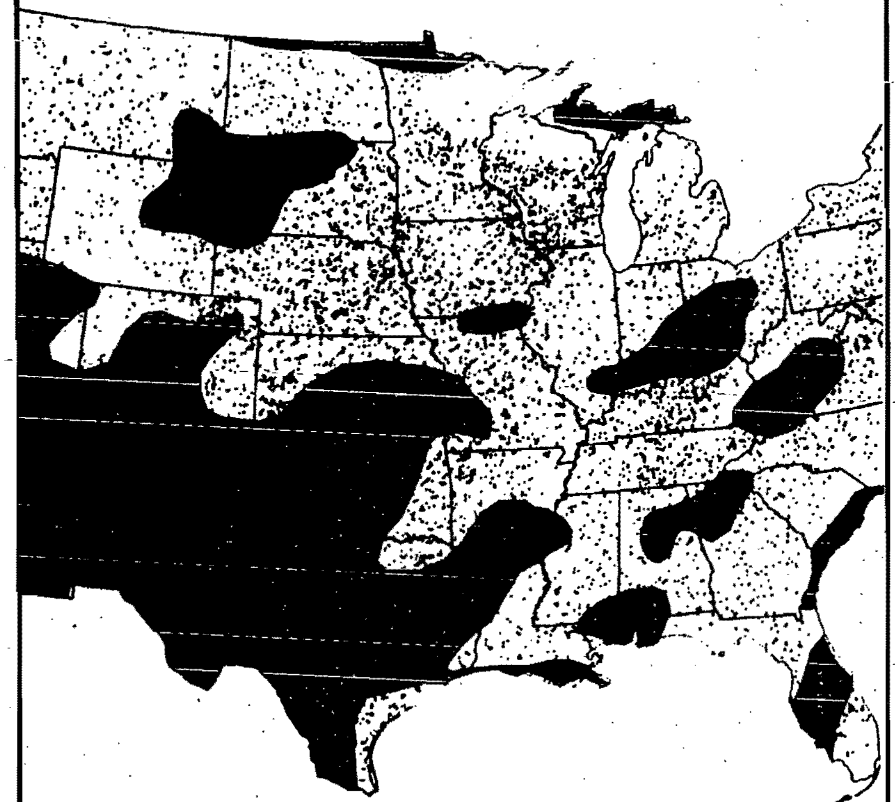
Emerging Developments

Fed cattle prices have been under pressure from large beef supplies, and large supplies of competing meats this winter and early spring. Stocker-feeder cattle prices have come under the pressure of the lowest fed cattle prices since the mid-1980's, record grain prices, and drought through much of the Great Plains and Southwest.

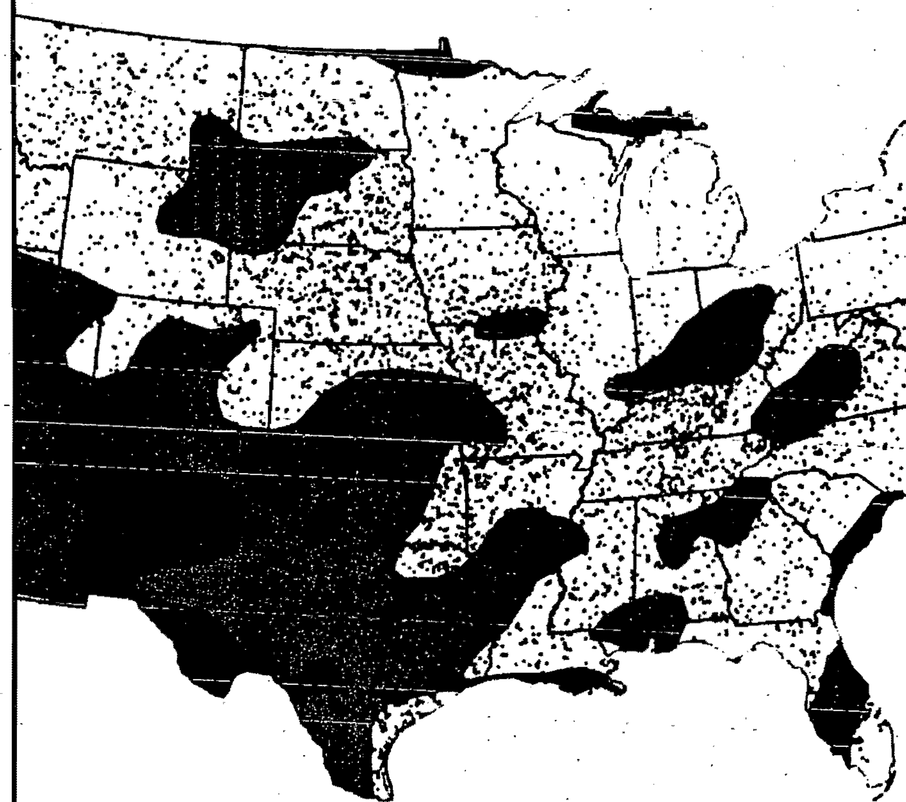
By late May, these pressures were easing. Much of the drought is now concentrated from Southern California to Texas, with parts of Texas receiving some relief (see map). Hay stocks in this area are tight and this year's harvest is very uncertain. About two-thirds of the calf crop is born in the first half of this year. Fall calving areas are largely concentrated in the southern States, including the Southwest. Calves born last fall are being weaned this summer and producers are facing not only low feeder cattle prices, but also poor forage prospects. Consequently, larger numbers of beef cows are being culled in areas with poor forage supplies. Unless moisture conditions improve, so additional forage growth occurs before temperatures rise this summer cow slaughter is this area will remain large.

Cattle Inventories vs. Precipitation

October 1, 1995 - May 27, 1996



Cattle and Calves - 1992 Inventory
1 Dot = 10,000 Cattle and Calves
SOURCE: *US DOC Bureau of the Census*



Beef Cows - 1992 Inventory
1 Dot = 5,000 Beef Cows
SOURCE: *US DOC Bureau of the Census*

KEY: *< 25% of normal* *25 - 75% of normal* *> 125% of normal*

Joint Agricultural Weather Facility (NOAA/USDA)

For cow-calf operations with spring calving, conditions and prospects are improving. Tightening beef supplies are expected to result in fed cattle prices moving toward the mid-$60's this fall and into the upper $60's next winter. In addition, improved moisture conditions and grazing and forage prospects will allow producers not only to maintain their cow herds, but utilize more forage to hold calves to heavier weights before being marketed. Harvest prospects for this fall appear promising with a 9.4-billion-bushel corn harvest being forecast, up 27 percent from 1995/96. Although feed grain carryover stocks are expected to remain tight in 1995/96, stocks in 1996/97 are expected to rise. The season-average farm price of corn is expected to average $2.70 to $3.10 per bushel, down from $3.15 to $3.25 in 1995/96. The farm price of corn averaged a record-high $4.26 a bushel in mid-April.

Feeder Cattle Price Prospects More Promising

Feeder cattle break-even prices provide a framework to examine the likely progression for feeder cattle prices into this fall under the present forecasts. Fed steer prices now are averaging near $60 per cwt, and corn prices in the South Plains are near $5.65 per bushel. Consequently, the break-even price that a feedlot can pay for 750-800 pound feeder steers is about $51 per cwt.

Most of the first-half 1996 calf crop will be weaned in late summer through fall. Fall fed cattle prices are expected to average near $66 per cwt and corn prices decline to near $4.65 in the Southern Plains. This would allow cattle feeders to pay over $66 per cwt for feeder cattle and still break-even. Since fed cattle prices in first-quarter 1997 could average in the upper $60's due to a 5-7 percent drop in cattle on feed inventories from a year earlier, feeder cattle prices could be even stronger. Price prospects will improve this fall if grain production appears likely to increase grain stocks to more comfortable levels.

Cow-Calf Returns Likely to Improve Going Into 1997

Cow-calf producers that calf in the fall and wean their calves in the spring, particularly those in the Southwest, have had the greatest misfortune. In many situations, producers were forced to cull their cow herd closely to keep the most productive cows to maintain a base for future production. Not only were they forced to sell their calves, but often calves were weaned and sold early due to declining forage supplies at a time when grain prices were at record levels and fed cattle prices were under pressure from large supplies.

Market returns above cash costs for cow-calf operators in 1995 resulted in an estimated loss of about $10 to $15 a head. Losses this year, assuming prices strengthen this fall as expected, are likely to average about $50 to $60 a head. Continued tight grain stocks in 1996-97 and grain prices well above the ranges in 1990 through mid-1995 could result in producers still loosing $20 to $30 a head in 1997.

Financial Condition of Cattle Producers

Characteristics of Cattle Producers

Over half of all U.S. farms, or 1,119,000 farms, reported having beef cattle in 1994. Most of these are cow-calf farms, but would also include stockers and some farmer-owned feedlots. While beef cattle are produced in nearly every rural county in the contiguous United States, beef production is concentrated in 10 States in the Great Plains and Southwest. Almost one-third of the farms reporting sales and/or inventory of beef cattle in 1994 were located in these two regions as was 50 percent of yearend beef cattle inventory (table 1). Therefore, a downturn in economic conditions facing beef cattle producers will have a strong regional economic effect.

Commercial-sized operations ($50,000 or more in annual sales) receiving a majority of farming income from cattle are most likely to be adversely affected by current cattle market conditions. In 1994, only 76,000 commercial-sized farms specialized in beef cattle production--about 7 percent of all farms with beef cattle. These farms received 82 percent of their gross cash income from livestock sales, accounted for 38 percent of the year end cattle inventory, and averaged 340 head of cattle per farm. Another 21 percent of cattle are produced by 171,000 commercial-sized farms where cattle is not the primary enterprise. While these producers have lower receipts from livestock sales, many may have higher crop receipts as a consequence of current high grain prices, helping maintain the farm's financial health.

Of all farms with beef cattle in 1994, nearly 78 percent were noncommercial-sized farms. These farms produced about 40 percent of all cattle. While these producers will experience reduced cattle receipts, nearly all have either the wealth or the off-farm income which can be used to off-set losses. Over 90 percent of the operators of these noncommercial farms received most of their income from nonfarm sources. With an average debt-to-asset ratio of only 0.05, these operations have a strong cushion which many could use, if needed, to cover losses from cattle.

Among commercial producers where cattle is the primary enterprise, cow-calf operations and cattle producers located in the drought-ridden Southwest are most likely to experience financial stress. While stocker and feed-lot operators are harmed by poor pasture conditions and high feed costs, they benefit from lower prices paid for feeder animals.

Income For Cattle Producers Is Expected to Fall Again in 1996

Nationally, cattle receipts for commercial beef producers are expected to decline by 6 percent in 1995, and are expected to be flat in 1996. At the same time, higher expenses will lower net cash incomes by 3 to 7 percent in 1996 when compared to 1995.

Table 1. Distribution of beef cattle farms and beef cattle in 1994, by region and farm size.

Characteristic	Total	Farms with beef cattle[1] Non-commercial[3]	Farms with beef cattle[1] Commercial[4]	Beef cattle farms[2] Non-commercial	Beef cattle farms[2] Commercial
			Number of farms (thousands)		
Farms with sales of:					
$500,000 or more	17	NA	17	NA	6
$250,000-$499,999	30	NA	30	NA	7
$50,000-$249,999	201	NA	201	NA	63
$49,999 or less	871	871	NA	566	NA
All farms	1,119	871	248	566	76
Farms located in:					
Great Plains[5]	133	67	66	40	24
Southwest[6]	227	195	31	141	18
All other States	758	608	150	385	33
			Percent of cattle		
Cattle on farms with sales of:					
$500,000 or more	15	NA	25	NA	30
$250,000-$499,999	9	NA	15	NA	15
$50,000-$249,999	36	NA	60	NA	55
$49,999 or less	40	100	NA	100	NA
Total	100	100	100	100	100
Cattle on farms located in:					
Great Plains[5]	25	12	34	11	35
Southwest[6]	25	28	23	30	29
All other States	50	60	43	59	36
Total	100	100	100	100	100

Source: USDA 1994 Farm Costs and Returns Survey.

1 Farms that sold beef cattle in 1994 and/or with beef cattle inventory on December 31, 1994.

2 50 percent or more of the total value of farm sales was from beef cattle in 1994.

3 Non-commercial farms had sales of $49,999 or less in 1994.

4 Commercial farms had sales of $50,000 or more in 1994.

5 Colorado, Kansas, Montana, Nebraska, North Dakota, South Dakota, and Wyoming.

6 Arizona, New Mexico, Oklahoma, and Texas

The most recently available farm household survey data on farm financial conditions is for 1994. Those data show commercial beef producers' net cash income (gross cash returns minus total cash expenses) is the lowest in some time. Net cash income of commercial-sized cattle farms averaged $27,000 in 1994, down from a recent high of $48,000 in 1992 (table 2). At $13,000, net farm income in 1994 for these producers was its lowest level in recent years. While 70 percent of cattle operations earned positive net cash income in 1994, the level was a 10-percentage-point decline from the average of the previous three years.

Livestock receipts are the most important source of farm income for commercial beef producers, accounting for 80 percent of gross receipts in the 1990's. In contrast, commercial beef producers earn only about 10 percent of their gross farm income from crops sales. Because they produce crops and have participated in government farm programs, some commercial beef farmers will be eligible to receive government payments under the FAIR Act of 1996. In the 1990's, government payments provided only about 5 percent of commercial beef farm income. Despite accounting for a relatively small proportion of the gross income earned by commercial beef producers, the expected increase in crop receipts and government payments should largely offset the potential dip in livestock receipts for commercial beef producers, in the aggregate. This will not be true for cattle producers suffering both cattle and crop losses in the Southern Plains.

Many Producers Have Equity Reserves to Meet Obligations

In general, most commercial beef producers were in a strong financial position going into 1995 and are likely to still have substantial equity reserves going into 1996. In contrast to the farm financial crisis of the 1980's, land values have remained strong. Data through 1995 show that land values continue to increase in many cattle producing regions. The circumstances which contributed to the 1980's land value collapse are absent. Also, good prospects for crops, except for winter wheat, should help keep land values strong. Thus, many commercial beef farms have equity reserves which are available, if needed, to meet cash obligations.

Some highlights of the financial condition of commercial beef farms as of January 1, 1995 were:

- Average asset values were $1,044,000, while average farm liabilities were just $147,000. This gave an overall debt-to-asset ratio of 14 percent going into 1995, which is low relative to other commercial-size farms.

- Just under 60 percent of commercial beef producers were in a "favorable" financial condition--defined as those with positive farm income and low debt-to-asset ratios. In contrast, only 4 percent of commercial beef producers were classified as "vulnerable"--having negative farm income and high debt-to-asset ratios. Producers in this classification group are most likely to experience financial stress that could lead to the financial failure of the operation.

- While only 4 percent of commercial beef farms were financially vulnerable to failure, these farms account for a disproportionate share of total gross cash income and debts owed by commercial beef farms, about 12 and 20 percent, respectively. On average, vulnerable commercial beef farms have gross sales of $503,000 and total expenses of more than $646,000, leaving a cash shortfall of $143,000. Also, these farms had an average debt-to-asset ratio of 70 percent, which is high by industry standards. Farm assets averaged about $967,000 while liabilities averaged over $676,000.

The net worth of most commercial beef operations indicate that many of these farms have been profitable over the longer term. This net worth provides a reserve which may be used to cover temporary cash shortfalls. At the start of 1995, 36 percent of commercial beef operations had insufficient cash income to cover cash operating expenses and loan principal and interest payments (cash shortfalls), but three-quarters of these could meet all of their obligations by borrowing against existing assets without their debt-to-asset ratio rising above 40 percent. One quarter of farms with cash shortfalls were considered to be limited equity operations since their debt-to-asset ratio would rise above 40 percent if the 1994 cash shortfall was met through additional borrowing.

While the strong-equity operations experienced an average short-term cash shortfall of $40,000, this amount could easily be collateralized by borrowing against existing assets. These farms reported total assets of $1.37 million and net worth of $1.26 million. Such increased indebtedness would have raised the average debt-to-asset ratio for this group only slightly, from 8 percent to 11 percent.

However, many of the limited equity operations, with an average debt-to-asset ratio exceeding 50 percent, may be unable to cover any shortfall using debt. Borrowing the average shortfall of $160,000 would have increased their average debt-to-asset ratio to over 70 percent. Since these operations reported owning less real estate, they are less likely to be able to refinance short-term shortfalls with long-term real estate mortgages. These operations had over $3 billion in debt outstanding at the beginning of 1995, owing almost 28 percent of the total debt owed by all commercial beef producers

Up To 14,000 Beef Cattle Farms May Be Vulnerable to Serious Stress

U.S. farm cattle prices have progressively declined since 1993. Projections indicate that 1996 cattle receipts may be about 13 percent below 1994 levels. The share of commercial beef operations with cash flow shortfalls may have increased from 36 percent in 1994 to 55 percent in 1996. But two-thirds of these farms would still have strong equity positions, with debt-to-asset ratios less than 40 percent. The number of commercial beef farms with cash income insufficient to cover operating expenses and loan payments and with limited equity could rise to 12,000 to 14,000 farms in 1996 from 7,000 at the start of 1995. These farms would be more likely to face partial or full liquidations, foreclosures, and bankruptcies if cattle prices remain low for an extended period. The greatest concentration of financial stress appears to be in the Southwest (Arizona, New Mexico, Oklahoma and Texas) where one-third or 6,000 commercial beef farms may have become vulnerable to failure.

Credit Conditions

Larger Beef Farms Depend on Credit

Table 2. Debt characteristics for commercial beef farms.

	Annual sales $100,000 or more	Annual sales $50,000-99,999	All commercial beef farms
Number of farms	37,000	38,000	75,600
		---Percent--	
Distribution of farm debt	84	16	100
Farms reporting:			
Nonreal or operating debt	72	50	61
Real estate debt	63	29	46
Any debt	86	60	73
Distribution of farms by debt-to-asset ratio:			
0-.10	36	55	46
.11-40	42	33	37
Over 0.40	22	12	17
Mortgage debt/real estate assets	24	4	13
Households dependent on farm inc.	72	40	55

Source: 1994 Farm Costs and Returns Survey.
A household was considered farm dependent if 50 percent or more of household income came from farming

Not all commercial-sized beef farms are equally reliant on debt financing. A strong contrast in debt usage exists between farms with over $100,000 in sales and those with $50,000 to $100,000 in sales. The 76,000 commercial-sized farms are split evenly between these two groups, but the larger group carries higher debt loads and is more dependent on farm income as the primary source of household income (table 5).

Only 40 percent of the operators with annual sales between $50,000 and $99,999 were dependent on farm income for the majority of their household income whereas 72 percent of producers with over $100,000 in sales depended heavily on farm income. Over 86 percent of the larger farms carried debt, while only 60 percent of those in the smaller size category carried any debt going into 1995. Smaller and larger commercial farms both reported substantial equity in real estate, especially smaller farms which reported that real estate debt equaled only 4 percent of the total value of real estate owned. As previously mentioned, real estate equity can be used to finance temporary cashflow shortfalls.

Commercial beef farms with over $100,000 in annual sales rely on lenders for much of their working capital, with 72 percent reporting either operating or nonreal estate debt. Financial stress would likely be concentrated among operators in this group. Of all commercial-sized beef farms with negative incomes and debt-to-asset ratios over 0.40 going into 1995, 83 percent reported annual sales exceeding $100,000. The 3,400 farms falling into this category owed over 20 percent of all commercial beef farm debt. This suggests that lenders which serve these producers will experience greater loan repayment problems if low cattle prices and high feed costs persist.

Which Financial Institutions Might Be Affected?

Data from the early 1990's show that commercial banks are the primary lender to commercial beef farms, supplying 42 percent of all credit (table 6). Banks are an especially important source of nonreal estate credit, with a 72 percent market share. Nonreal estate lenders will likely be affected by cash flow shortfalls before real estate lenders.

Financial institutions which serve the vulnerable farm group are likely to experience loan delinquencies, refinancing, and possibly some restructuring.

Compared with other lenders, the Farm Credit System (FCS) may be affected less from sustained low cattle prices and high feed costs. The share of debt owed to the FCS by vulnerable beef farms is low (12 percent), and most of the FCS's debt is secured by real estate. As long as real estate prices do not decrease, their losses will likely be minimal.

Table 3. Lender market shares for beef farms with $50,000 or more in annual sales.

Lender Group	Total debt		By purpose	
	All farms	Vulnerable farms/1	Real estate	Nonreal & op. loans
	---Percent---			
FCS	24	12	34	12
Banks	42	42	19	72
FSA	14	27	20	5
All others	20	19	27	11
Total	100	100	100	100

Source: 1991-93 Farm Costs and Returns Survey
1/ Vulnerable farms reported negative farm income and debt-asset ratios of 0.40 or greater.

Little Current Evidence of a Lender Financial Crisis

Most lender data reported for the end of 1995 shows only a very slight decline in loan quality for commercial banks and FCS institutions in cattle producing regions. However, these data may not provide a good indication of current (i.e., 1996) financial stress because of delays in reporting loan delinquencies. Also, annual loan payments for cow/calf producers often come due after the fall months when the calf crop is sold.

As of the end of 1995, the FCS was not experiencing an appreciable rise in defaults on cattle producer loans. Nationally, the delinquency rate on FCS beef cattle loan volume was under 2 percent. This rate is only slightly above the delinquency rate of 1.4 percent for all FCS loans (including loans made by the Bank for Cooperatives) and for all farm loans made within the Wichita and Texas Farm Credit Bank districts where cattle loans are concentrated.

Survey data collected by the American Banker's Association found an average default ratio of 1.15 percent among farm banks lending primarily to cow/calf operators as of June 30, 1995. This ratio was very nearly equal the average default rate for all agricultural banks (1.12 percent). However, 43 percent of the farm borrowers of cow/calf banks were at their loan limit compared to 33 percent of farm borrowers at all agricultural banks.

A survey by the FSA's credit team, completed in May 1996, found that 26 percent of FSA's direct loan cattle borrowers were delinquent on their accounts. This compares favorably to FSA's entire direct loan portfolio which currently has a 28 percent delinquency rate. While delinquency rates on its guaranteed loans are much lower, the same pattern holds. Guaranteed cattle loan borrowers have a lower delinquency rate than all guaranteed borrowers (1.6 percent versus 3 percent).

Filing activity under Chapter 12 of the bankruptcy code also provides a measure of farm financial stress, but it too is a lagging indicator. As of the end of 1995, there was no indication of a rise in farm bankruptcies in major cattle regions. However, State farm loan mediation services are reporting increasing demand for their services. These voluntary services, which are often administered through State Departments of Agriculture, provide a method outside the legal system to resolve farm borrower and lender disputes. North Dakota estimates it will have handled around 1,000 cases by mid-year, whereas it handled 793 for all of 1995; cases for Texas doubled over last year.

Credit conditions expected to deteriorate in 1996

Surveys of commercial bankers' opinions of the agricultural credit conditions conducted during the first quarter of 1996 by the Kansas City, Minneapolis, and the Dallas Federal Reserve Banks show that bankers in cattle producing regions expect credit conditions to deteriorate in 1996. These surveys provide information on more current conditions, but are not nearly as accurate and comprehensive as data reported to regulators.

The surveys note a sharp drop in loan repayment activity and a rise in loan renewals or extensions during the last quarter of 1995 and first quarter of 1996, largely the result of weakness in cattle loans. These are some of the first types of loan servicing actions implemented when a producer can not make a specified payment on time. On the other hand, bankers have a much stronger outlook on grain producers' prospects in 1996 and are still generally reporting rising farmland values, albeit at a slowing pace.

A Farm Credit System survey of its member associations confirms the trends reported by commercial bankers. Based on conditions at the end of 1995, the FCS survey shows that financial stress is building in the Plains States where cattle production is important. While 48 percent of respondents nationwide expected increased financial stress in 1996, 85 percent of reporting associations in the Northern Plains and 74 percent in the Southern Plains expected increased financial stress in 1996. When asked about farm income, associations in the Northern and Southern Plains were much more pessimistic about the prospect for farm incomes in 1996 than were associations in other regions.

FSA's agricultural credit teams also expect repayment problems to increase on their direct and guaranteed cattle loans. Respondents believe that 26 percent of the direct program cattle borrowers who are current on their loan payments will become delinquent in the near future. Of those who are already delinquent, 35 percent are believed to be unable to resolve their credit problems and will eventually liquidate their farm holdings. The corresponding figures for the guaranteed loan programs are lower, but the trend for guaranteed cattle loans is also toward worsening loan quality in 1996.

Lenders Remain Healthy

Based on the latest indicators, there is no doubt that financial stress will lead to more loan repayment problems among cattle producers. However, as a group, farm lenders are financially healthy and are well positioned to weather a temporary decline in the farm economy.

Table 4. Return on assets for farm banks in selected States, Dec. 31, 1995.

	Number of farm banks	Net income/assets			
		Below 0.5%	0.5-1.0%	Above 1.0%	Above 1.0%
	Number	Number	Number	Number	Percent
All farm banks	3,351	213	1,022	2,116	63.1
Colorado	63	2	8	53	84.1
Kansas	305	32	122	151	49.5
Montana	61	5	6	50	82.0
Nebraska	284	16	85	183	64.4
North Dakota	117	6	27	84	71.8
Oklahoma	173	21	48	104	60.1
South Dakota	98	6	25	67	68.4
Texas	314	18	88	208	66.2
Wyoming	26	4	6	16	61.5

Source: Report of Condition and Report of Income, Board of Governors of the Federal Reserve System, December 31, 1995

The capital positions and income levels of commercial banks serving agriculture and the cooperative Farm Credit System, the two primary lenders to agriculture, are at near-record levels. The healthy financial condition of most banks will enable them to accommodate many livestock producers that might need to restructure debts. However, some smaller banks with large lending exposure to the cattle industry may experience sharp rises in default rates and could experience financial problems if the downturn in the cattle industry becomes protracted.

Analysis of 1995 year-end data on agricultural banks in major cattle producing States shows that these banks are generally sharing the good fortune of the overall banking industry, with strong balance sheets and high profits. About 63 percent of all agricultural banks achieved a return on assets (ROA) above 1.0 percent in 1995. At the lower extreme, only 6 percent of the banks had an ROA below 0.5 percent. There is no evidence that farm bank profitability is being affected by problem cattle loans at this time.

If the financial condition of cattle producers continues to deteriorate to the extent that some are unable to repay their loans, the strong capital reserves of most banks will enable them to write off bad loans as needed. At the end of 1995, equity capital was less than 8 percent of assets at 541 agricultural banks--16 percent of the Nation's farm banks. Only 24 of these banks had equity amounting to less than 6 percent of assets. The average for all farm banks was 10.8 percent, above the 10.2 percent average for nonagricultural banks. Hence most banks, even in major cattle producing States, are in no immediate danger of failing due to problems with their cattle producer borrowers.

After receiving Federal assistance 8 years ago, the FCS is now on a firm financial footing and is very well capitalized. The ratio of at-risk capital-to-total assets (capital ratio) for FCS institutions in major cattle producing regions is about 20 percent, way above the statutory minimum of 7-percent. An insurance fund is also available to provide additional backing for FCS securities. Total FCS net income topped $1 billion for the third year in a row in 1995 and record first quarter 1996 profits were reported.

Table 5. Equity capital-to-asset ratios for farm banks in selected States, Dec. 31, 1995.

	Number of farm banks	Equity capital/assets		
		Below 6%	6-8%	Below 8%
	Number	Number	Number	Percent
All farm banks	3,351	24	517	16.1
Colorado	63	1	14	23.8
Kansas	305	3	52	18.0
Montana	61	0	7	11.5
Nebraska	284	1	40	14.4
North Dakota	117	1	15	13.7
Oklahoma	173	2	31	19.1
South Dakota	98	0	16	16.3
Texas	314	8	61	22.0
Wyoming	26	0	4	15.4

Source: Report of Condition and Report of Income, Board of Governors of the Federal Reserve System, December 31, 1995

District Farm Credit Banks and local associations with high concentrations of cattle loans tend to be in the Plains and Mountain States where cattle production is concentrated. The highest concentrations are in the Wichita FCS district (Colorado, Kansas, Oklahoma, New Mexico) where 27 percent of the lending volume is to cattle producers and in the Texas district where 41 percent is to livestock producers (primarily cattle). FCS associations with high concentrations of cattle loans might be more adversely affected by current economic conditions than what aggregate or even district level figures might indicate. All but a few associations in cattle producing regions reported capital ratios of at least 15 percent at the beginning of the year, with most exceeding 20 percent.

Good Capacity for Further Lending

The generally healthy financial condition of commercial banks and the FCS will enable them to accommodate many livestock producers that might need additional credits or need to have debts restructured. By the nature of its funding the Farm Credit System is generally not constrained from obtaining funds for additional lending. However, commercial banks and other deposit taking financial institutions can be constrained.

Loan-to-deposit ratios (LD) are typically used to indicate a bank's level of liquidity, with lower ratios suggesting that banks could easily meet increased loan demand. LD averaged almost 62 percent for all farm banks in December 1995. In the past, loan ratios above 60 percent might have caused farm bankers to consider slowing their lending activity. Today banks have alternative sources in addition to conventional deposit accounts for obtaining loanable funds.

For agricultural banks in cattle producing States, the loan-to-deposit ratio averaged 66 percent in Nebraska and South Dakota, 65 percent in Colorado, and 56 percent in Oklahoma, but only 47 percent in Texas. Federal Reserve District surveys of agricultural banks found that the majority of bankers do not view these ratios as being too high, and that the availability of funds for making new loans is good.

Table 6. Loan-to-deposit ratios for farm banks in selected States, Dec. 31, 1995.

	Number of farm banks	Loans/deposits			
		Below 40%	40-60%	Above 60%	Above 60%
	Number	Number	Number	Number	Percent
All farm banks	3,351	339	1027	1985	59.2
Colorado	63	1	19	43	68.3
Kansas	305	36	112	157	51.5
Montana	61	0	27	34	55.7
Nebraska	284	18	70	196	69.0
North Dakota	117	9	40	68	58.1
Oklahoma	173	36	58	79	45.7
South Dakota	98	3	26	69	70.4
Texas	314	116	121	77	24.5
Wyoming	26	5	8	13	50.0

Source: Report of Condition and Report of Income, Board of Governors of the Federal Reserve System, December 31, 1995

While the financial data suggest that most agricultural banks are able and willing to maintain or increase their lending to the agricultural sector, some caution is in order. Banks do not make loans just because they have the capacity to do so--loan applications will be rejected if continued poor weather and low beef prices make it unlikely that the loans will be repaid.

Administration Policy and Program Response

There is little current evidence of a widespread financial crisis (delinquencies, foreclosures, bankruptcies) among cattle producers. Yet, there is growing concern expressed by lenders and verified by farm financial data that a prolonged downturn into 1997 will adversely affect more cattle producers, primarily cow/calf producers, and the lenders serving them. Most commercial cattle producers have the equity or off-farm income to withstand the current downturn. However, some producers are already facing significant financial stress in 1996. The Administration has program options available through current law to assist financially stressed cattle producers and has taken a series of actions to hwlp stabilize the cattle market.

Existing FSA Programs

Current Farm Service Agency (FSA) credit programs provide only a relatively small portion of operating credit used by cattle producers. If economic conditions deteriorate significantly or become protracted, some modifications to these programs may be necessary. FSA currently operates guaranteed and direct farm ownership (FO) and farm operation loan (OL) programs, and a direct Emergency Disaster (EM) loan program that can be used to assist cattle producers.

- *Operating Loans*. The direct and guaranteed OL programs are available to producers needing credit to maintain their operations and are the primary source of Federal credit assistance currently available to financially stressed cattle producers. Funding for the guaranteed OL program is $1.851 billion in fiscal 1996 and is sufficient to handle expected applications for the remainder of the year. Authority to guarantee OL loans with an FSA interest rate subsidy and authority for the direct OL program ($579 million) are expected to be exhausted by the end of summer. However, this is commonly the case for both programs and not necessarily an indication that commercial farm credit is hard to find.

- *Farm Ownership Loans*. The Farm Ownership program is available for the purchase of farm and ranch land. The guaranteed FO program, which generally has good funding, can also be used to refinance the existing debts of financially distressed cattle producers. Direct FO lending authority is small and is mostly targeted to beginning farmers.

- *Emergency Disaster Loans*. EM loans are available to livestock producers in counties designated as disaster areas, due to floods, droughts, and other natural disasters. Funding for fiscal 1996 was exhausted in mid-May due to high program demand, but some funding has been transferred from other USDA programs. The default rate in this program has been extremely high, with loan losses totaling over $6 billion over the last 6 fiscal years.

Administration Response

Recognizing the developing financial stress on U.S. cattle producers caused by reduced cattle prices, high feed prices and reduced availabiltiy of forage and pasture, the administration has implemeted a series of steps beyond use of existing credit programs to provide feed assistance and stabilize cattle markets.

- The Export Enhancement Program (EEP), which subsidizes the export of grains and other products, has not been used for wheat, wheat flour or barley since mid-1995.

- In early 1996, reflecting the reduced availability of U.S. grains for domestic users, the President released 1.5 million tons of wheat from the Food Security Wheat (now Commodity) Reserve to meet humanitarian food aid commitments.

- In January 1996, the administration announced that certain lands enrolled in the Conservation Reserve Program (CRP) with contracts expiring in 1996 would be permitted to leave the CRP early so that they could be brought back into agricultural production. On April 5, one day after enactment of the 1996 Farm Bill, the administration broadened this early-out provision by announcing that non-environmentally sensitive land under contract for at least 5 years could leave the CRP early. Approved contract terminations would receive a prorated rental payment for 1996 and would be eligible for the 1996 Farm Bill's production flexibility contract payments, if the CRP acreage has a crop acreage base history.

- As the drought in the Southern Plains developed, the administration authorized grazing of livestock on CRP acreage on an emergency basis in numerous Southern Plains counties. In early April, it was announced that the reduction in the CRP rental payment would be 5 percent for each month grazed up to 25 percent, rather than the 25 percent reduction previously assessed for any grazing of CRP acreage.

- The sales closing dates for catastrophic risk protection coverage for spring-planted crops was extended to May 2, 1996. This extension provided livestock producers that also produced crops an added opportunity to buy crop insurance.

- On April 30, the administration announced a 5-step program to assist the cattle industry:

  1) Grazing and haying of CRP acreage was expanded nationally and permitted on all but the most environmentally sensitive land.

  2) Opportunities for exporting beef and cattle were increased by expanding USDA efforts to identify potential purchasers, expanding and amending GSM 102 and 103 credit guarantees, and pressing the trade complaint with the WTO against the EU ban on imports of U.S.-produced beef. During early May, USDA amended GSM programs to indclude livestock and livestock products for Turkey, Poland, Morocco, and the Central American region. On May 20, the administration announced that the World Trade Organization has accepted the U.S. request for, and established, a dispute settlement panel to examine the EU's ban on imports of beef from animals raised with the benefit of growth hormones.

  3) Up to $50 million in beef will be purchsed in advance for 1996/97 school year. In late May, USDA announced the purchase of 5.2 million pounds of frozen ground beef at a cost of $5 million for the 1995-96 school year and confirmed that purchases would continue on a weekly basis for the 1996-97 school year.

  4) The credit needs of livestock producers will be examined and any needs for leniency reported to the President in 30 days (this report fulfills that commitment).

  5) The administration will meet with livestock producers in the cattle and beef industry to monitor the actions taken. Initial meetings took place in May.

- On May 24, the administration announced the transfer of $16.4 million in unobligated funds from the CRP to the Emergency Loan Program. The Emergency Loan Program, which provides loans to producers to help overcome natural disasters, had exhausted the $109 million avaiable for FY 1996. The transfer of funds from the CRP enables an estimated $56 million in emergency loans to be made. In the event these funds are insufficient, additional action will be considered.

- On May 30, the administration announced the Noninsured Crop Disaster Assistance Program is being expanded to cover the value of forage losses on small grains affected by drought. The Livestock Feed Program was also extended by 90 days for producers previously approved to receive emergency livestock feed assistance. This program, terminated by the 1996 Farm Bill, helps livestock producers facing a shortage of feed due to natural disasters by cost-sharing 50 percent of the feed purchased to replace the feed normally producced on the farm. Although the program has been terminated, applications approved prior to termination, have been extended for 90 days past May 31 to August 31, 1996.

- On May 31, the Office of the Comptroller of the Currency (OCC) issued a bulletin to all Chief Executive Officers of National Banks and all examining personnel to encourage bankers to work with borrowers in communities affected by drought. With proper controls and management oversight, OCC indicated extended repayment terms or other such restructuring can contribute to the health of the local community as well as serve the long-term interests of the bank. And, OCC indicated such efforts, done in a prudent way, will not be subject to examinert criticism.

- On June 4, USDA requested authority from the President to release 45 million bushels of feedgrains currently stored in the Disaster Reserve. A concurrent resolution of Congress was passed during the first week of June, declaring that the reserves should be released. USDA is now developing a plan for disposing the reserves.

- On June 6, the Advisory Committee on Agricultural Concentration issued its report to the Secretary of Agriculture on recommendations for addressing the adverse effects of concentration . With the four leading steer and heifer slaughter This committee was formed by the administration to advise on and to investigate the effects of concentration on agriculture, especially in the meat industry. The committee report contains over 80 specific recommendations for action. USDA is now reviewing the report and preparing a strategy for achieving its recommendations.

- The current situation is difficult but manageable provided weather permits a rebound in feed production and supplies and cattle prices continue improving as expected. Policy actions taken to date, combined with FSA's loan programs, will help meet producers credit needs for the remainder of 1996. If poor weather, strong feed grain demand or large livestock liquidations maintain the cost-price squeeze during much of 1996, the financial pressure on cattle producers will escalate and expand to a much larger portion of the nation, increasing the need for additional policy and program response. The USDA should continue to monitor grain, forage and cattle conditions for signs of rising financial stress. This monitoring should be done on a regular basis; it should use the most timely available data; and it should be done in concert with other Federal agencies that have jurisdiction and other entities that can provide useful information. If financial conditions deteriorate, additional actions should be considered.

Appendix. Review of Past Economic Emergency Loan Programs

- *The Emergency Livestock Credit Act of 1974 (P.L. 93-357, July 25, 1974).* This legislation provided temporary livestock financing through a guaranteed loan program. Like today, livestock producers faced high feed grain prices and low livestock prices. The stated purpose of the Emergency Livestock (EL) program was to enable livestock operations to maintain current rates of production and to receive financing (including the refinancing of existing debts) that was necessary to allow the applicant to remain in business.

  Under the EL program, USDA guaranteed up to *80 percent* of the principal and interest loss on a livestock loan. Loans had to be adequately secured and the total amount of loans guaranteed to any single applicant could not exceed $250,000. Loans were to be repaid within three years, but could be renewed for another two years.

  Authority for the program was for one year, but the Secretary could extend the program for six months, if needed. Outstanding loans were capped at $2 billion. As is the case with many such programs, the authority was extended, with the last extension coming in 1978. Authority finally expired on September 30, 1979, over 5 years after it was first authorized. A total of $1.046 billion was obligated.

  Relative to other emergency loan programs, the loss rate was a low 4.5 percent of the total amount guaranteed. This was due to the relatively strict eligibility requirements, short length of the loans, and the 80-percent guarantee it offered. The guaranteed loan program was new in 1972 and lending authority minimal in 1974. This type of assistance would only work today if authority from the existing 90-percent guarantee program was insufficient to meet demand. Today, the existing loan guarantee programs are widely used, accounting for over 75 percent of FSA annual farm credit lending.

- *Emergency Agricultural Adjustment Act of 1978 (Title II of the Agricultural Credit Act of 1978, P.L. 95-334, August 4, 1978).* This legislation created the Economic Emergency program (EE), which became a huge and expensive mechanism for providing temporary relief for economic stress. The EE program operated as a direct and as a 90-percent guaranteed lending program and was authorized to have up to $4 billion outstanding. Borrowers could obtain loans up to $400,000, provided total FSA indebtedness did not exceed $650,000.

  Compared to the EL program created in 1974, eligibility requirement for the EE program were loose. Any producer was eligible if he or she was unable to obtain credit at "reasonable rates and terms due to national or area wide economic stresses, such a general tightening of agricultural credit or an unfavorable relationship between costs and prices received for agricultural commodities." Because the language was so broad, most applicants were eligible. The loans could be used for a broad range of purposes and could be repaid over long periods of time, as much as 20 years. Loan security requirements were minimal, often leaving USDA with little or no collateral to back the loan. The statute only required that the loans be secured by "collateral as is available, that together with the confidence of the Secretary, and, for guaranteed loans, the confidence of the lender.....is adequate to protect the Government's interest." Assets pledged as collateral could be less than the principal value of the loan.

The EE program was originally set to expire May 15, 1980, 21 months after enactment. Legislation in March 1980 (P.L. 96-220) extended the program until September 30, 1981 and boosted the cap to $6 billion. A total of $6.629 billion was loaned under the program when the authority finally lapsed, with guaranteed loan volume accounting for just 5 percent of this total. In December 1983, the U.S. District Court in Washington, D.C. directed the Secretary to reopen the program for a limited time until September 30, 1984. An additional $600 million was loaned.

The losses from the EE program are extremely high, totaling $3.373 billion through the end of fiscal 1995. Nearly 12 years after the program was finally halted, it still has an outstanding balance of just over $1 billion--most of it delinquent. EE program losses will continue to mount for years to come.

USDA

Thursday, December 4, 1997

GREG FRAZIER
Chief of Staff

The Deputy
Charlie Rawls
Carl Whillock
Patrick Steel
John Gibson

Please disregard the previous copy of the dairy memo the Secretary sent to the President and replace it with the attached.

THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C. 20250-0100

Monday, December 1, 1997

MEMORANDUM FOR THE PRESIDENT

From: Secretary Dan Glickman

Subject: Current Dairy Issues

Dan Glickman

Dairy is the most complex, controversial farm problem before the Department.

Four factors have converged, creating the current, contentious political climate over the future of dairy policy: 1) long-standing, sharply divisive regional views; 2) the 1996 farm bill phases out dairy price support programs and requires me to reform the remaining structure of dairy programs, federal milk marketing orders; 3) weak prices, compared to those of 1996; and 4) a recent federal district court decision negating one of the fundamental, decades-old tenets of dairy programs.

The proposal brought to your attention -- that I establish a floor on milk prices -- is but one of the options I have been weighing; they, the background I outlined, and the steps I am planning are discussed in this report in four sections: I-The Dairy Industry Today; II-Highlights of Current Dairy Policy; III-Federal District Court Strikes Down Key Dairy Program Provision; and IV-USDA's Actions and Options.

I-The Dairy Industry Today

Many dairy producers continue to experience financial difficulties. Reports of dairy farm closings are frequent occurrences across the country. Unfortunately, dairy producers can expect lower returns later next year as normal springtime production increases occur. High feed and forage costs, low cull cow and calf prices, and only a modest increase in milk prices from historic levels continue to aggravate these trends.

These trends are playing out across a dairy industry markedly different than the one which opened this decade. It is far more concentrated, its geographic center has shifted, and its numbers have declined sharply.

In the last 10 years, the number of dairy farms has dropped by 44%; since 1990, the number has fallen by nearly one-third. Dairy farms total 126,800, or about 6% of all US farms. Meanwhile, milk production has actually increased 8% over the last decade. Today's dairy farms are larger than those of a decade ago, and more productive.

Importantly, they are also in different parts of the country. While the traditional milk belt remains populated by sizeable numbers of generally smaller dairy farms, the locus of production has shifted to the South and West, where large farms -- those with 100 cows or more -- out produce the small, traditional farms in the Upper Midwest and New England. California dairies produce at 124% of the national average rate; Arizona, 125%; and New Mexico dairy farms produce 117% the national average. In contrast, Wisconsin dairy farms now produce at only 94% of the national average rate and Minnesota at 96% of the national rate.

Earlier this year, the Department responded to the dip in dairy prices from 1996 levels by increasing dairy product exports through the Dairy Export Incentive Program (DEIP) and by expanding the use of dairy products in its food and nutrition assistance programs, which were up nearly one-third in fiscal year 1997. These actions have been somewhat successful: Milk prices increased steadily over the past several months. USDA expects the all-milk price to average $13.35 per hundredweight (cwt) in 1997, well below last year's record of $14.87, but slightly above the 1990-96 average of $13.20.

II-Highlights of Current Dairy Policy

The 1996 farm bill phases out the dairy price support program, ending it January 1, 2000. The phase-out began at a level of $10.20 per cwt, nearly 25% below the peak support price of the early 1980s. On January 1, 1998, the support level steps down again to $10.05, then to $9.90 on January 1, 1999.

In stark contrast to the policies for grain, oilseed, and cotton farmers in that legislation, the 1996 farm bill did not provide dairy farmers any transitional assistance as their support programs end. Congress provided direct, fixed payments over 7 years for grain, oilseeds, and cotton farmers to ease the transition to the end of traditional price and income supports, but dairy producers receive no transition assistance.

Instead, Congress mandated the consolidation and reform of milk marketing orders by April 1999 -- a reform I supported. The Department is developing a proposed rule, which will be released late this year, and which is discussed in greater detail in section IV.

III-Federal District Court Strikes Down Key Dairy Program Provision

In 1990, the Minnesota Milk Producers Association filed suit in the local federal district court challenging certain pricing provisions of milk marketing orders. On November 3, 1997, the Court issued a decision finding, in essence, that class I differentials -- the premiums milk purchased for fluid use earns -- are unlawful. The court enjoined USDA from enforcing them except in certain deficit production areas, primarily the Southeast.

This decision has received extensive media, congressional, and public attention and fueled the fires of regional polarization over dairy policy. Farmers and their representatives in Wisconsin and Minnesota are ecstatic with the decision and do not want the Government to appeal. Producers in the Northeast and other areas are deeply concerned about the decision and the possibility they will no longer receive prices which include a differential. Producers in the South are concerned that, while their prices will still include a differential, cheaper milk will flow toward their region, driving down their ultimate returns.

Given the chaos that will result from the immediate implementation of the decision, I am working with the Justice Department on seeking a stay of the decision and appeal. The motion will be filed as soon as possible.

IV-USDA's Actions and Options: Federal Milk Marketing Order Reform, Flooring the Basic Formula Price, and the Northeast Interstate Dairy Compact

Having boosted the use of our program to subsidize dairy exports and to increase the amount of dairy products used in our feeding programs as outlined in section I, last July I sent a letter to Congress indicating that further actions were beyond the Department's current authorities, inconsistent with the directives contained in the 1996 farm bill, and require congressional action. While regionally based congressional interest in dairy issues has been keen, Congress took no action in response to my letter.

Federal Milk Marketing Order Reform

The 1996 farm bill directed USDA to consolidate and reform Federal Milk Marketing Orders (FMMO); I supported this reform. Since May 1996, USDA has requested comment on various options prior to issuing a proposed rule. The farm bill requires a proposed rule to be published by April 1998 and a final rule must be in place by April 1999.

FMMO reform involves three principal issues: 1) consolidating 31 orders into fewer and larger market areas; 2) reviewing the Basic Formula Price (BFP), which is used to establish prices for various classes of milk, such as fluid milk, cheeses, and dried milk; and 3) changing the minimum class I price surface, including the use and level of price differentials.

Various regions of the country have longstanding and strongly held differences of opinion as to how FMMOs should be reformed, particularly with regard to the minimum class I price surface. The debate on this point turns on whether the price surface should be flattened. In general, the price of milk increases the farther east, southeast, and south it is

purchased from Eau Claire, Wisconsin as a result of the current class I differential system. Eliminating or reducing differentials flattens the national price surface.

Because the existing price surface increases the price of milk the farther the milk is from Wisconsin, the Upper Midwest believes the present system discriminates against it and encourages overproduction in areas with higher class I prices. The Upper Midwest supports a flatter class I price surface, with lower or no differentials, to reduce the price differences between it and other regions, who adamantly oppose this course. For example, 48 Senators and 113 members of the House have written to me urging that USDA propose a class I price surface that is not significantly different than the existing system.

Nonetheless, I believe a flatter class I price surface is preferable to current policy or one that would make only marginal changes because it is a more market-oriented system, consistent with the overall direction of other farm programs. However, such an approach would decrease dairy producer income and exacerbate the decline in dairy producers in areas, outside of Wisconsin and Minnesota, where class I price differentials would be reduced. Accordingly, I am examining a transitional aspect to this reform that would include a temporary flooring of the BFP as the flatter differentials phase in.

Flooring the Basic Formula Price

I am evaluating flooring the BFP for class I milk regulated under FMMOs in conjunction with reforming orders to stabilize or increase returns to dairy farmers in areas covered by FMMOs. While several farm groups support a floor of between $13.50 to $14.50 per cwt, I am considering setting a floor of the BFP at or near current levels, approximately $12.83, to minimize market distortions because that level is related to recent market forces compared to a floor which raises the BFP.

Any effort to floor the BFP will send a positive message to dairy producers that the Administration is taking action on their behalf. In addition, the primary benefit of such a floor would be to protect dairy producers from a dramatic reduction in returns which is likely to occur this spring. Our initial analysis indicates that this action could increase cash receipts from milk marketings by about $400 million over the current system.

Flooring the BFP would be controversial, and I am not inclined to propose it without simultaneously announcing reforms to the price surface of FMMOs. Such an action would generally be at odds with Congress' directive in the 1996 farm bill to phase out the price support program and might attract criticism from other agencies in the Administration. Since milk marketing orders were not intended to provide income support for dairy farmers, handlers or processors who would be required to make higher payments to farmers might mount a successful legal challenge against the action.

Flooring the BFP would require several months to accomplish. The Secretary has no emergency or other discretionary authority to amend milk marketing orders and this action could be accomplished through a rulemaking procedure, that would include notice and comment, including comments from many who will argue that establishing a BFP floor is not the most desirable policy option. Other policy considerations include:

1. Flooring the BFP would increase, or hold steady, the minimum class I price paid to producers who market their milk in areas regulated by FMMOs. Not all producers would benefit from flooring the BFP, since FMMOs are not in effect for many areas. FMMOs regulate about 70% of all milk marketed. In areas not regulated by Federal orders, such as California, the all-milk price could fall.

2. In areas regulated by Federal orders, flooring the BFP would have widely varying effects, since the increase in producer milk prices depends on the relative proportion of milk used in class I products, which varies considerably between the existing 31 Federal orders. Producers in low class I utilization markets, such as the Upper Midwest would likely see little or no increase in their prices. Higher minimum price for milk used in class I could reduce fluid milk consumption and cause producers to increase further milk production, which could place additional pressure on the price of milk in non-fluid uses.

3. Flooring the BFP transfers income to dairy producers by raising the retail price of fluid milk. Increasing class I milk prices would be reflected in higher retail prices for fluid milk and per capita consumption of fluid milk would decline. However, since only about one-third of all milk is used in class I products, only a fraction of the increase in the BFP would be reflected in the price for all uses of milk. Our initial analysis indicates that this action could increase national average price of fluid milk by 35 to 45 cents per gallon for milk marketed in FMMOs and would increase the average retail price for all milk by about 20 to 30 cents per gallon.

4. Higher retail fluid milk prices would have an immediate affect on low-income households. The increase in retail milk prices could trigger increases in outlays for the Department's food and nutrition assistance programs. Higher retail fluid milk prices might also reduce the number of program participants served by the Women, Infant, and Children's Program (WIC).

The Northeast Interstate Dairy Compact

Another factor to consider in setting dairy policy is the Administration's approval of the Northeast Interstate Dairy Compact, a decision a Federal district court upheld and which is now under appeal in the Circuit Court of Appeals for the District of Columbia where

oral arguments were heard on November 20, 1997. USDA's analysis suggests that the compact will not have a significant effect on other regions of the country. However, the Upper Midwest believes the compact exacerbated problems with the current FMMO system, since the compact has increased class I prices for dairy producers in the six compact states. Consequently, Senators Kohl and others from the Upper Midwest added a provision to the agricultural appropriations bill for FY 98 that requires the Office of Management and Budget to conduct a study on the effects of the compact.

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V-Conclusion

While dairy producers in many areas continue to confront a difficult financial picture, regional and other differences have for years prevented consensus on action -- perhaps most recently best illustrated by the fact that Congress was unable to come to any agreement on future dairy policy in the 1996 farm bill. These regional disputes were heightened by a federal district judge's decision throwing out the decades-old system of class I price differentials.

The 1996 farm bill provides me no authority to act aggressively on behalf of the dairy producers and Congress, to date, has expressed little interest in acting -- perhaps because of the regional differences which divide it.

However, I do expect to announce in the near future proposals to reform the milk marketing and pricing system coupled with a program of flooring the BFP to assist dairy farmers through the transition to a more market-oriented, simpler dairy policy.

P.S. These issues are extremely complicated, & highly volatile. The regional differences on dairy policy are explosive, and will be exacerbated in the halls of Congress over the next several months. This present a very interesting set of challenges for USDA. Dan G.

Thursday, December 4, 1997

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THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C. 20250-0100

Monday, December 1, 1997

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From: Secretary Dan Glickman Dan Glickman

Subject: Current Dairy Issues

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THE SECRETARY OF AGRICULTURE
WASHINGTON
20250-0100

August 15, 1997

MEMORANDUM FOR THE PRESIDENT

From: Secretary Dan Glickman

Subject: Department of Agriculture's Efforts to Curb Fraud

I want to update you on our progress in fighting fraud and abuse as well as inform you of several new initiatives that we are about to undertake to maintain the integrity of our programs as well as ensure taxpayer dollars are being appropriately spent.

Feeding Programs

Food Stamp Fraud: As I wrote to you on August 10, USDA is embarking on a nationwide initiative to locate and capture fugitives by studying food stamp participant rosters. USDA, with the cooperation of state and local law enforcement officials, is also using these rosters to identify prison inmates who are illegally collecting food stamps. In early 1997, a task force of USDA, local, state and other Federal law officers operating in two Kentucky counties identified 207 fugitives who had received an estimated $300,000 in food stamps. The task force also found that 1,175 Maryland and Virginia inmates had collected $142,300 in food stamp benefits. As this two-pronged program expands nationally, USDA expects to save taxpayers $36 million per year.

Food Stamp Error Rate: Through increased oversight of state programs, USDA has cut the food stamp error rate for the third consecutive year. The rate is now 9.22 percent, saving taxpayers $660 million since 1993. Errors mostly occur when state agencies pay out in excess of the amount for which applicants qualify.

Retailer Inspections for Food Stamp Program: USDA is conducting on-site review of retailers authorized to accept food stamps or Electronic Benefits Transfer (EBT) to ensure that they are not illegally participating. In 1995 alone, USDA's site inspections resulted in catching 860 stores illegally participating and identifying another 450 questionable stores.

Child and Adult Care Food Program (CACFP): USDA has initiated a nationwide on-site review, or "sweep," of sponsors who participate in feeding children and senior citizens using CACFP funds. USDA recently audited 12 sponsors, 11 of which had either allowed their day-care homes to claim payment for children they did not feed, shortchanged those they did feed with unhealthy meals or used funds for personal enrichment. In some cases, they kept children in crowded, unhealthy, and unsafe living spaces, such as basements, which USDA immediately reported to local authorities. In another case, a sponsor who managed 170 day-care homes and 20 centers syphoned off CACFP money to pay for their children's college educations and their $1.6 million mansion. USDA, through the proper authorities, is pursuing criminal prosecution on charges ranging from filing false claims to extortion, bribery, and mail fraud.

Women, Infants and Children (WIC): USDA is developing regulations to strenghten states' computer monitoring of WIC retailers to detect program abuse. Our chief concern is retailers' practice of inflating WIC vouchers above the cost of the the food purchased. For example, we have caught some retailers inflating the voucher to its maximum level when the cost of goods purchased by the WIC participant is actually less.

Rural Housing Programs

Rural Housing Fraud and Abuse: USDA is planning a major on-site inspection program of properties and activities of individuals participating in the Rural Rental Housing (RRH) Program, which has a loan portfolio of $11.6 billion. Our preliminary investigation indicates that some property owners are converting program funds, reserve maintenance accounts, and tenant security deposits to personal use. As a result, the multi-family complexes they own are in deplorable condition, risking the safety and health of families living in them. USDA has new legal authority to impose criminal sanctions, restitution and fines. We have already found two individuals who converted in excess of $1.8 million in project funds to their personal use and were subsequently sentenced to prison and ordered to pay restitution and fines.

Farm Programs

Cotton Export Program: USDA is investigating over 40 corporations participating in the Upland Cotton Domestic User Program/Exporter Program which may have submitted false statements and claims from 1992 through 1995. These corporations collected $152 million in program funds over this 3 year period. This multi-agency investigation is comprised of the IRS, the U.S. Customs Service, and INTERPOL. We expect guilty pleas from 4 corporations in the next month.

Tobacco: USDA will assess nearly $40 million in marketing quota penalties to as many as 65 tobacco dealers and 185 tobacco auction warehouse operators in North Carolina, South Carolina, Virginia, and Georgia for violating over several years the marketing provisions of the flue-cured tobacco program. Some of the illegal practices employed included creating fictitious rights to sell tobacco, also referred to as marketing quota, falsifying records, and evading required penalties on selling excess tobacco. The assistant U.S. Attorney is interested in pursuing civil cases against many of the dealers and warehouse operators. During this period of illegal trafficking of tobacco, farmers most likely paid more out of their pockets to support the tobacco program than would have otherwise been the case.

I will keep you informed about these initiatives as they proceed.

THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C.
20250-0100

Wednesday, December 23, 1997

MEMORANDUM FOR THE PRESIDENT

From: Secretary Dan Glickman Dan Glickman

Subject: Child Nutrition Reauthorization/School Breakfast Initiative

I urge you to consider including a school breakfast initiative as part of your State of the Union message. While I briefly outlined the issue at the budget appeal on Friday December 19,1997, I want to explain the proposal in more depth and outline how it dovetails with your child care and education initiatives.

The nation's major child nutrition programs expire in 1998, and require reauthorization. Not since the Carter Administration has a President had the opportunity to set forth his commitment to provide school meals to millions of children. Democrats in both houses of Congress, including Senators Daschle, Johnson and Reed of Rhode Island, and Congressman Miller of California, are preparing major initiatives to augment the school nutrition programs, with particular emphasis on providing free school breakfast for most elementary school children.

What we are proposing is school breakfast at no charge for all children in pre-kindergarten through third grade. 26 million children currently participate in the school lunch program, and approximately 14 million receive free or reduced price school lunches. By comparison, the current school breakfast program only reaches 7 million children each day. In schools where breakfast is available, only 20% of children eat breakfast and more than 85% of these children are low income. We estimate that large numbers of middle and upper-middle income also do not eat breakfast at home or at school.

By making school breakfast available at no cost to all children in pre-kindergarten through third grade, we will remove the stigma that accompanies eating breakfast at school, and we will be able to reach additional at-risk children. We estimate that 600,000 additional children will participate in school breakfast the first year and one million by the third year. The cost of the initiative I proposed for grades pre-kindergarten through third grades is $217 million for the first year and 1.2 billion over 5 years while the congressional initiative (kindergarten through six grades) will cost nearly double that amount.

Why do this? What is its impact? Recent research by the State of Minnesota and the Harvard/ Kellogg Hunger Breakfast Project shows that students who eat school breakfast have improved math grades, reduced hyperactivity, decreased absences and tardy rates, and improved behavior. The researchers observed that the students displayed fewer signs of depression, anxiety, hyperactivity, and other behavioral problems therefore they were more inclined to learn. Two new studies which support these findings will be published in *Pediatrics* in January and in the Journal of the *American Academy of Child and Adolescent Psychiatry* in February. The initiative is compatible with the findings of the White House Conferences on the Brain, Child Care, and other education initiatives; it reinforces my belief that the school breakfast program should be seen as an education program, not a welfare program.

Let me emphasize that point: This is an education and child development initiative, not an income security proposal. We provide every child books, desks, and transportation not as a form of income supplement, but to enhance their education and that is what this proposal is about. What is missing from our education initiatives now is the foundation upon which the value of these other investments rest: A good breakfast so our children can be the best students possible.

I want to see the Administration get credit for a good idea that I believe Congress will act on. Even if we need to phase-in the initiative to fit budget constraints, we can do so and still get credit for the idea. We need to be leading and not following on this initiative. We will also have the support of the food and education advocacy groups in the process, as well as a number of groups who represent labor and low and middle income working Americans.

In the 104th Congress, the Republican attack on the school lunch program was devastating for them. Some believe that the attack was the most lethal attack on the Republican agenda, largely because food for children has strong, middle class appeal. A school breakfast initiative has the same programmatic and political advantages. We have the opportunity to make a bold statement of policy concerning the direct relationships between child nutrition and learning and the importance of school nutrition programs, particularly school breakfast.

I understand the competing budget pressures, but this is an outstanding opportunity to leave an imprint and legacy like the Truman Administration did in 1947 when it first proposed the school lunch program.

Happy Holidays to you + your family.

Dan

THE SECRETARY OF AGRICULTURE
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20250-0100

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Dan

THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C. 20250-0100

Monday, December 1, 1997

MEMORANDUM FOR THE PRESIDENT

From: Secretary Dan Glickman

Subject: Current Dairy Issues

Dan Glickman

Dairy is the most complex, controversial farm problem before the Department.

Four factors have converged, creating the current, contentious political climate over the future of dairy policy: 1) long-standing, sharply divisive regional views; 2) the 1996 farm bill phases out dairy price support programs and requires me to reform the remaining structure of dairy programs, federal milk marketing orders; 3) weak prices, compared to those of 1996; and 4) a recent federal district court decision negating one of the fundamental, decades-old tenets of dairy programs.

The proposal brought to your attention -- that I establish a floor on milk prices -- is but one of the options I have been weighing; they, the background I outlined, and the steps I am planning are discussed in this report in four sections: I-The Dairy Industry Today; II-Highlights of Current Dairy Policy; III-Federal District Court Strikes Down Key Dairy Program Provision; and IV-USDA's Actions and Options.

I-The Dairy Industry Today

Many dairy producers continue to experience financial difficulties. Reports of dairy farm closings are frequent occurrences across the country. Unfortunately, dairy producers can expect lower returns later next year as normal springtime production increases occur. High feed and forage costs, low cull cow and calf prices, and only a modest increase in milk prices from historic levels continue to aggravate these trends.

These trends are playing out across a dairy industry markedly different than the one which opened this decade. It is far more concentrated, its geographic center has shifted, and its numbers have declined sharply.

In the last 10 years, the number of dairy farms has dropped by 44%; since 1990, the number has fallen by nearly one-third. Dairy farms total 126,800, or about 6% of all US farms. Meanwhile, milk production has actually increased 8% over the last decade. Today's dairy farms are larger than those of a decade ago, and more productive.

Importantly, they are also in different parts of the country. While the traditional milk belt remains populated by sizeable numbers of generally smaller dairy farms, the locus of production has shifted to the South and West, where large farms -- those with 100 cows or more -- out produce the small, traditional farms in the Upper Midwest and New England. California dairies produce at 124% of the national average rate; Arizona, 125%; and New Mexico dairy farms produce 117% the national average. In contrast, Wisconsin dairy farms now produce at only 94% of the national average rate and Minnesota at 96% of the national rate.

Earlier this year, the Department responded to the dip in dairy prices from 1996 levels by increasing dairy product exports through the Dairy Export Incentive Program (DEIP) and by expanding the use of dairy products in its food and nutrition assistance programs, which were up nearly one-third in fiscal year 1997. These actions have been somewhat successful: Milk prices increased steadily over the past several months. USDA expects the all-milk price to average $13.35 per hundredweight (cwt) in 1997, well below last year's record of $14.87, but slightly above the 1990-96 average of $13.20.

II-Highlights of Current Dairy Policy

The 1996 farm bill phases out the dairy price support program, ending it January 1, 2000. The phase-out began at a level of $10.20 per cwt, nearly 25% below the peak support price of the early 1980s. On January 1, 1998, the support level steps down again to $10.05, then to $9.90 on January 1, 1999.

In stark contrast to the policies for grain, oilseed, and cotton farmers in that legislation, the 1996 farm bill did not provide dairy farmers any transitional assistance as their support programs end. Congress provided direct, fixed payments over 7 years for grain, oilseeds, and cotton farmers to ease the transition to the end of traditional price and income supports, but dairy producers receive no transition assistance.

Instead, Congress mandated the consolidation and reform of milk marketing orders by April 1999 -- a reform I supported. The Department is developing a proposed rule, which will be released late this year, and which is discussed in greater detail in section IV.

III-Federal District Court Strikes Down Key Dairy Program Provision

In 1990, the Minnesota Milk Producers Association filed suit in the local federal district court challenging certain pricing provisions of milk marketing orders. On November 3, 1997, the Court issued a decision finding, in essence, that class I differentials -- the premiums milk purchased for fluid use earns -- are unlawful. The court enjoined USDA from enforcing them except in certain deficit production areas, primarily the Southeast.

This decision has received extensive media, congressional, and public attention and fueled the fires of regional polarization over dairy policy. Farmers and their representatives in Wisconsin and Minnesota are ecstatic with the decision and do not want the Government to appeal. Producers in the Northeast and other areas are deeply concerned about the decision and the possibility they will no longer receive prices which include a differential. Producers in the South are concerned that, while their prices will still include a differential, cheaper milk will flow toward their region, driving down their ultimate returns.

Given the chaos that will result from the immediate implementation of the decision, I am working with the Justice Department on seeking a stay of the decision and appeal. The motion will be filed as soon as possible.

IV-USDA's Actions and Options: Federal Milk Marketing Order Reform, Flooring the Basic Formula Price, and the Northeast Interstate Dairy Compact

Having boosted the use of our program to subsidize dairy exports and to increase the amount of dairy products used in our feeding programs as outlined in section I, last July I sent a letter to Congress indicating that further actions were beyond the Department's current authorities, inconsistent with the directives contained in the 1996 farm bill, and require congressional action. While regionally based congressional interest in dairy issues has been keen, Congress took no action in response to my letter.

Federal Milk Marketing Order Reform

The 1996 farm bill directed USDA to consolidate and reform Federal Milk Marketing Orders (FMMO); I supported this reform. Since May 1996, USDA has requested comment on various options prior to issuing a proposed rule. The farm bill requires a proposed rule to be published by April 1998 and a final rule must be in place by April 1999.

FMMO reform involves three principal issues: 1) consolidating 31 orders into fewer and larger market areas; 2) reviewing the Basic Formula Price (BFP), which is used to establish prices for various classes of milk, such as fluid milk, cheeses, and dried milk; and 3) changing the minimum class I price surface, including the use and level of price differentials.

Various regions of the country have longstanding and strongly held differences of opinion as to how FMMOs should be reformed, particularly with regard to the minimum class I price surface. The debate on this point turns on whether the price surface should be flattened. In general, the price of milk increases the farther east, southeast, and south it is

purchased from Eau Claire, Wisconsin as a result of the current class I differential system. Eliminating or reducing differentials flattens the national price surface.

Because the existing price surface increases the price of milk the farther the milk is from Wisconsin, the Upper Midwest believes the present system discriminates against it and encourages overproduction in areas with higher class I prices. The Upper Midwest supports a flatter class I price surface, with lower or no differentials, to reduce the price differences between it and other regions, who adamantly oppose this course. For example, 48 Senators and 113 members of the House have written to me urging that USDA propose a class I price surface that is not significantly different than the existing system.

Nonetheless, I believe a flatter class I price surface is preferable to current policy or one that would make only marginal changes because it is a more market-oriented system, consistent with the overall direction of other farm programs. However, such an approach would decrease dairy producer income and exacerbate the decline in dairy producers in areas, outside of Wisconsin and Minnesota, where class I price differentials would be reduced. Accordingly, I am examining a transitional aspect to this reform that would include a temporary flooring of the BFP as the flatter differentials phase in.

Flooring the Basic Formula Price

I am evaluating flooring the BFP for class I milk regulated under FMMOs in conjunction with reforming orders to stabilize or increase returns to dairy farmers in areas covered by FMMOs. While several farm groups support a floor of between $13.50 to $14.50 per cwt, I am considering setting a floor of the BFP at or near current levels, approximately $12.83, to minimize market distortions because that level is related to recent market forces compared to a floor which raises the BFP.

Any effort to floor the BFP will send a positive message to dairy producers that the Administration is taking action on their behalf. In addition, the primary benefit of such a floor would be to protect dairy producers from a dramatic reduction in returns which is likely to occur this spring. Our initial analysis indicates that this action could increase cash receipts from milk marketings by about $400 million over the current system.

Flooring the BFP would be controversial, and I am not inclined to propose it without simultaneously announcing reforms to the price surface of FMMOs. Such an action would generally be at odds with Congress' directive in the 1996 farm bill to phase out the price support program and might attract criticism from other agencies in the Administration. Since milk marketing orders were not intended to provide income support for dairy farmers, handlers or processors who would be required to make higher payments to farmers might mount a successful legal challenge against the action.

Flooring the BFP would require several months to accomplish. The Secretary has no emergency or other discretionary authority to amend milk marketing orders and this action could be accomplished through a rulemaking procedure, that would include notice and comment, including comments from many who will argue that establishing a BFP floor is not the most desirable policy option. Other policy considerations include:

1. Flooring the BFP would increase, or hold steady, the minimum class I price paid to producers who market their milk in areas regulated by FMMOs. Not all producers would benefit from flooring the BFP, since FMMOs are not in effect for many areas. FMMOs regulate about 70% of all milk marketed. In areas not regulated by Federal orders, such as California, the all-milk price could fall.

2. In areas regulated by Federal orders, flooring the BFP would have widely varying effects, since the increase in producer milk prices depends on the relative proportion of milk used in class I products, which varies considerably between the existing 31 Federal orders. Producers in low class I utilization markets, such as the Upper Midwest would likely see little or no increase in their prices. Higher minimum price for milk used in class I could reduce fluid milk consumption and cause producers to increase further milk production, which could place additional pressure on the price of milk in non-fluid uses.

3. Flooring the BFP transfers income to dairy producers by raising the retail price of fluid milk. Increasing class I milk prices would be reflected in higher retail prices for fluid milk and per capita consumption of fluid milk would decline. However, since only about one-third of all milk is used in class I products, only a fraction of the increase in the BFP would be reflected in the price for all uses of milk. Our initial analysis indicates that this action could increase national average price of fluid milk by 35 to 45 cents per gallon for milk marketed in FMMOs and would increase the average retail price for all milk by about 20 to 30 cents per gallon.

4. Higher retail fluid milk prices would have an immediate affect on low-income households. The increase in retail milk prices could trigger increases in outlays for the Department's food and nutrition assistance programs. Higher retail fluid milk prices might also reduce the number of program participants served by the Women, Infant, and Children's Program (WIC).

The Northeast Interstate Dairy Compact

Another factor to consider in setting dairy policy is the Administration's approval of the Northeast Interstate Dairy Compact, a decision a Federal district court upheld and which is now under appeal in the Circuit Court of Appeals for the District of Columbia where

oral arguments were heard on November 20, 1997. USDA's analysis suggests that the compact will not have a significant effect on other regions of the country. However, the Upper Midwest believes the compact exacerbated problems with the current FMMO system, since the compact has increased class I prices for dairy producers in the six compact states. Consequently, Senators Kohl and others from the Upper Midwest added a provision to the agricultural appropriations bill for FY 98 that requires the Office of Management and Budget to conduct a study on the effects of the compact.

Meanwhile, dairy interest in other regions of the country have expressed interest in establishing their own compacts, which the uncertainty created by the Minnesota litigation increased. This sentiment seems particularly strong in the Southeast. Several states have already passed legislation authorizing compacts if ratified by Congress. The expansion of compacts could reinforce regional disputes and undermine any effort to develop a market-oriented national dairy policy.

V-Conclusion

While dairy producers in many areas continue to confront a difficult financial picture, regional and other differences have for years prevented consensus on action -- perhaps most recently best illustrated by the fact that Congress was unable to come to any agreement on future dairy policy in the 1996 farm bill. These regional disputes were heightened by a federal district judge's decision throwing out the decades-old system of class I price differentials.

The 1996 farm bill provides me no authority to act aggressively on behalf of the dairy producers and Congress, to date, has expressed little interest in acting -- perhaps because of the regional differences which divide it.

However, I do expect to announce in the near future proposals to reform the milk marketing and pricing system coupled with a program of flooring the BFP to assist dairy farmers through the transition to a more market-oriented, simpler dairy policy.

P.S. These issues are extremely complicated, & highly volatile. The regional differences on dairy policy are explosive, and will be exacerbated in the halls of Congress over the next several months. This presents a very interesting set of challenges for USDA. Dan G.

THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C. 20250-0100

Monday, December 1, 1997

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From: Secretary Dan Glickman

Subject: Current Dairy Issues

Dan Glickman

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I am evaluating flooring the BFP for class I milk regulated under FMMOs in conjunction with reforming orders to stabilize or increase returns to dairy farmers in areas covered by FMMOs. While several farm groups support a floor of between $13.50 to $14.50 per cwt, I am considering setting a floor of the BFP at or near current levels, approximately $12.83, to minimize market distortions because that level is related to recent market forces compared to a floor which raises the BFP.

Any effort to floor the BFP will send a positive message to dairy producers that the Administration is taking action on their behalf. In addition, the primary benefit of such a floor would be to protect dairy producers from a dramatic reduction in returns which is likely to occur this spring. Our initial analysis indicates that this action could increase cash receipts from milk marketings by about $400 million over the current system.

Flooring the BFP would be controversial, and I am not inclined to propose it without simultaneously announcing reforms to the price surface of FMMOs. Such an action would generally be at odds with Congress' directive in the 1996 farm bill to phase out the price support program and might attract criticism from other agencies in the Administration. Since milk marketing orders were not intended to provide income support for dairy farmers, handlers or processors who would be required to make higher payments to farmers might mount a successful legal challenge against the action.

Flooring the BFP would require several months to accomplish. The Secretary has no emergency or other discretionary authority to amend milk marketing orders and this action could be accomplished through a rulemaking procedure, that would include notice and comment, including comments from many who will argue that establishing a BFP floor is not the most desirable policy option. Other policy considerations include:

1. Flooring the BFP would increase, or hold steady, the minimum class I price paid to producers who market their milk in areas regulated by FMMOs. Not all producers would benefit from flooring the BFP, since FMMOs are not in effect for many areas. FMMOs regulate about 70% of all milk marketed. In areas not regulated by Federal orders, such as California, the all-milk price could fall.

2. In areas regulated by Federal orders, flooring the BFP would have widely varying effects, since the increase in producer milk prices depends on the relative proportion of milk used in class I products, which varies considerably between the existing 31 Federal orders. Producers in low class I utilization markets, such as the Upper Midwest would likely see little or no increase in their prices. Higher minimum price for milk used in class I could reduce fluid milk consumption and cause producers to increase further milk production, which could place additional pressure on the price of milk in non-fluid uses.

3. Flooring the BFP transfers income to dairy producers by raising the retail price of fluid milk. Increasing class I milk prices would be reflected in higher retail prices for fluid milk and per capita consumption of fluid milk would decline. However, since only about one-third of all milk is used in class I products, only a fraction of the increase in the BFP would be reflected in the price for all uses of milk. Our initial analysis indicates that this action could increase national average price of fluid milk by 35 to 45 cents per gallon for milk marketed in FMMOs and would increase the average retail price for all milk by about 20 to 30 cents per gallon.

4. Higher retail fluid milk prices would have an immediate affect on low-income households. The increase in retail milk prices could trigger increases in outlays for the Department's food and nutrition assistance programs. Higher retail fluid milk prices might also reduce the number of program participants served by the Women, Infant, and Children's Program (WIC).

The Northeast Interstate Dairy Compact

Another factor to consider in setting dairy policy is the Administration's approval of the Northeast Interstate Dairy Compact, a decision a Federal district court upheld and which is now under appeal in the Circuit Court of Appeals for the District of Columbia where

oral arguments were heard on November 20, 1997. USDA's analysis suggests that the compact will not have a significant effect on other regions of the country. However, the Upper Midwest believes the compact exacerbated problems with the current FMMO system, since the compact has increased class I prices for dairy producers in the six compact states. Consequently, Senators Kohl and others from the Upper Midwest added a provision to the agricultural appropriations bill for FY 98 that requires the Office of Management and Budget to conduct a study on the effects of the compact.

Meanwhile, dairy interest in other regions of the country have expressed interest in establishing their own compacts, which the uncertainty created by the Minnesota litigation increased. This sentiment seems particularly strong in the Southeast. Several states have already passed legislation authorizing compacts if ratified by Congress. The expansion of compacts could reinforce regional disputes and undermine any effort to develop a market-oriented national dairy policy.

V-Conclusion

While dairy producers in many areas continue to confront a difficult financial picture, regional and other differences have for years prevented consensus on action -- perhaps most recently best illustrated by the fact that Congress was unable to come to any agreement on future dairy policy in the 1996 farm bill. These regional disputes were heightened by a federal district judge's decision throwing out the decades-old system of class I price differentials.

The 1996 farm bill provides me no authority to act aggressively on behalf of the dairy producers and Congress, to date, has expressed little interest in acting -- perhaps because of the regional differences which divide it.

However, I do expect to announce in the near future proposals to reform the milk marketing and pricing system coupled with a program of flooring the BFP to assist dairy farmers through the transition to a more market-oriented, simpler dairy policy.

P.S. These issues are extremely complicated, & highly volatile. The regional differences on dairy policy are explosive, and will be exacerbated in the halls of Congress over the next several months. This presents a very interesting set of challenges for USDA. Dan G.