



Workgroup analyzes 2002 Farm Bill

The AIC cosponsored a daylong Agricultural Management and Economics Workgroup meeting in Monterey on Oct. 30 to analyze various aspects of the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). Karen Klonsky, AIC associate director for Agricultural Environmental Management, workgroup leader, and UC Cooperative Extension specialist in the UCD Agricultural and Resource Economics Department coordinated the event. Following are highlights from selected presentations. Details on the 2002 Farm Bill are at www.usda.gov/.



Effects of the farm bill on California commodities

—Daniel A. Sumner

- The 2002 Farm Bill contains hundreds of pages and provides money for food stamps, rural telephones, research and development, foreign food aid, and more. The big dollar programs, however, provide large subsidies for grains, oilseeds and cotton. The subsidies for these commodities average 20 percent of revenue, but are 50 percent or more for rice and cotton. Other payments, regulations or trade barriers subsidize dairy, sugar and certain other commodities. However, most commodities—about half of U.S. agriculture—get little subsidy.
- Commodity provisions are similar to those in past farm bills. Ad hoc market loss adjustment payments are replaced with counter cyclical payments tied explicitly to price. Direct payments are continued. There is no production requirement for either. Marketing loan gains/loan deficiency payments continue and are tied directly to production. The new bill also allows updating of program bases and program yields.

- There is an increase in export promotion matching funds used by many California commodities, but even with \$200 million, this is only 0.4 percent of export value for U.S. agriculture. The mandatory country of origin labeling requirement for most fresh and frozen fruits and vegetables and meats is complicated and likely to have small trade impacts.
- Although subsidies will approach the WTO aggregate measurement of support (AMS) limit of \$19.1 billion, some reshuffling of how AMS is calculated should keep the United States within WTO rules. However, the farm bill will have a major symbolic impact on farm trade relations, making it harder for U.S. trade negotiators to argue for more open markets globally.
- As usual, impacts for growers depend on how contents of the farm bill get interpreted into regulation.



Organic agriculture in the 2002 Farm Bill

—Karen Klonsky

- The federal 2002 Farm Bill exempts persons who produce and market 100 percent organic products from commodity promotion and

research assessments. What constitutes 100 percent organic is currently being debated. The exemption will apply to the existing national research and promotion programs. Industry boards are appointed by the Secretary of Agriculture and fully funded by assessment of producers. Many affected commodities have some organic production, but the largest organic presence is in the milk and soybean industries.

- The Organic Agriculture Research and Extension Initiative authorizes three million dollars a year over six years for a mandatory competitive research grants program for organic agriculture research and extension, with a focus on marketing, production, policy constraints, and socioeconomic topics. The report language specifies that these funds should not be viewed as the only funding mechanism for organic agriculture and should not substitute for other funds.
- An organic certification cost-sharing program, funded at \$5 million over the six-year life of the farm bill is available to producers and handlers of organic products who gross more than \$5,000 per year and who are required to be certified under the federal Organic Foods Production Act. There are about 9,000 certified organic producers in the U.S. The cost of certification varies by farm size and type and certifier but ranges from \$300 to several thousand dollars per year. Therefore, the funding should be adequate to subsidize most organic growers for two or more years.



Farmland protection provisions

—Alvin Sokolow

- The Farmland Protection Program (FPP) is a funding technique for protecting farmland from urban conversion by acquiring conservation easements or development rights. In return for compensation, owners voluntarily sell their development rights for “perpetuity” to a public agency or qualified nonprofit (usually a land trust), while retaining all other ownership rights.
- The FPP portion of the conservation title in the farm bill authorizes \$694 million over seven years, with a potential of \$985 million over 10 years, for easement spending. This is a striking increase over

the \$35 million for farmland protection authorized in the 1996 Farm Bill (later augmented by \$18 million)—the very first federal funding for farmland protection. The escalation of funding under the 2002 Farm Bill will boost the federal share of easement funding to about 25 percent. Even at the higher level, the funding remains a small share of farm real estate values.

- Funding requires that: 1) the proposal be from an eligible organization—i.e., state, local and tribal governments, and nonprofits; 2) the proposal involves a pending offer to the landowner from one of the eligible organizations; 3) there is at least a 50 percent funding match from nonfederal sources; 4) the proposal is for prime, unique or other productive soil; and 5) a conservation plan has been prepared for the parcel.
- There is little correlation between the ranking of a state’s agricultural market value and its ranking for the distribution of FY 2002 FFP funds. Only eight of the top 20 states in agricultural market value are in the list of the top 20 states in FFP allocations, and six states with relatively low agricultural market values are among the top 10 in FFP allocations. California for FY 2002 receives \$2.3 million in FFP funds for 2002. Only Pennsylvania and Maryland received more.



Implications for California dairying

—Joseph Balagtas

- The 2002 Farm Bill extends dairy price supports at \$9.90 through 2007, extends dairy export subsidies through 2007, assesses dairy importers for promotions and research, discontinues the Northeast Dairy Compact and includes a new milk production subsidy, the Milk Income Loss Contract (MILC), through 2005.
- MLIC payments are capped at 2.4 million pounds of milk (about six week’s production on an average California dairy) per operation per year. However, 79 percent of the dairies in

the United States have fewer than 100 cows and 92 percent have fewer than 200 cows. The payment cap will encourage small producers to increase production up to cap levels, resulting in an overall price decline.

- Based on an average monthly MILC payment of \$1 per hundredweight and a 25 cent per hundredweight reduction in milk prices from MILC-related production increases, dairies with 120 cows, each producing 20,000 pounds of milk a year, will benefit the most, and those with 460 cows at this production level will break even. About 50 percent of California's dairies responsible for 80 percent of the state's production will lose money as a result of MILC created production and price changes.
- With the MILC, California's dairy industry will continue to grow, but at a slower rate than it would otherwise.



Research funds initiated by the farm bill

—Julian Alston

- Congress influences the direction of public agricultural research with member-specified grants in the appropriation process (known as earmarks). In addition however, recent farm acts have included increasing numbers of "high-priority research areas" that have also restricted the competitive grants programs which were originally designed to fund fundamental, science-driven research. The 1998 AREER Act (Agricultural Research, Education and Extension Reform) identified a range of such research priorities. In the 2002 Farm Bill, twenty new High-Priority Research and Extension Initiative areas are added to the twenty-four existing areas, including five new areas in natural resources and the environment. A Bovine Johnne's disease control program and a program on Karnal Bunt research are added. Some new high-priority research areas are highly specific compared with the intended broader purpose of competitive grants programs. For example, specific areas such as "dairy pipeline cleaning" and "agrotourism"

may be difficult to address under broad research solicitations.

- New high-priority research areas are added to an already long list. Indeed, a shorter list might be the non-priority items.
- The farm bill does not provide enough money to overcome the gross under-investment in agricultural research and development. It extends most research provisions of the previous Farm Bill, but dollar amounts are replaced with "such sums as necessary to carry out programs." The farm bill basically continues past trends of stagnant total real federal support, declining shares of extension and formula funding and increasing shares of competitive grant funding, and increasing constraints on all funding.

Endowment dinner features China update

What happens in Beijing over the next 30 to 50 years is going to be more important than what happens in Washington, Rozelle told AIC supporters and board members attending the 5th annual AIC Advisory Board and Endowment Dinner at UC Davis on Nov. 12. Rozelle, a UC Davis agricultural economist and AIC associate director for China programs, led a discussion on China's role as a customer and competitor for California agriculture. Although Rozelle noted that it is "quite complicated to read the tea leaves" following



Bill Allewelt, Jr. (l.), vice chair of the AIC Advisory Board and board member Richard Rominger were among the many AIC supporters attending the endowment dinner.

China's entering the World Trade Organization and becoming a major player on the international trading scene, he left little doubt that there would be a tremendous impact—an impact that will present both opportunities and challenges for California's agricultural economy.

Here are some of the highlights of Rozelle's insight on China:

- China has become one of the world's great trading nations. It is becoming more industrial, urban, wealthy, and Western as markets replace government control.
- Government intervention in the agricultural economy is fading and the marketplace is taking over. Commodity prices that used to average 100 percent higher than world prices, and in some cases far lower than world prices, are now converging to world levels.
- China has been a net exporting nation since 1990. In 1998 total exports totaled \$183.3 billion, and imports totaled \$160 billion. Agricultural exports in 1997 were \$15.3 billion and imports totaled \$9.8 billion.
- Although the initial base was small, China's agricultural production has been expanding rapidly. Fruit and vegetable production in China is expanding so fast that production equivalent to the annual production in California has been added every two years for the last 10 years.
- Most of the top 20 agricultural commodities produced in California are also produced in China. China out-produces California in the production of tomatoes, garlic and peaches, but California leads China in milk, almonds, pistachios and grapes.
- As production expands, there is a big push for upgrading quality to meet global export standards and demand of China's new middle class.
- China has a cost advantage over California in labor-intensive crops and is investing heavily in technology and research for land- and technology-intensive crops where costs are similar to those in California. The bottom line is that California is in for tough competition that will first be felt in such markets as Japan, Hong Kong, Korea and Taiwan. Extent of the competition will depend on whether China can maintain its rapid improvement in product quality and marketing,

Schacht honored at fall board meeting



AIC director Dan Summer (l.) and advisory board chair Dan Dooley (r.) recognize founding ACI board member Henry Schacht for his years of service from 1985-2002.

growth of its domestic demand, and how well California and other competitors perform.

- California can compete by differentiating and promoting its products, investing in research and investing in and developing partnerships within China. Demand for products grown in the United States is also great in China and will increase as the Chinese move from rural to urban areas and acquire more disposable income.

Mülder joins AIC

Annabel Mülder joined the Agricultural Issues Center in November as a postgraduate researcher and will be assisting on a number of ongoing research projects. A German national, she graduated from UC Davis in 2001 with a double master's degree in agricultural economics and international agricultural development. After graduation she worked on the development of a new web-based information service for the Consultative Group to Assist the Poorest (CGAP) at the World Bank. Subsequently, she joined a German consulting firm and was assigned to a leading microfinance institution in EL Salvador. She received training in all loan officer operations and conducted market research on new financial products for EL Salvadorian entrepreneurs.

AIC coordinates World Food Day forum

Marcia Kreith, AIC program analyst, and Karen Berke, ANR Communication Services distance education specialist, coordinated local World Food Day participation in the North American satellite conference, "Hungry Farmers: A National Security Issue for All," in October. Audiences at downlink sites throughout the U.S. and Canada then tackled the knotty question of what could be done to reduce hunger and poverty in the Third World.

AIC sponsors trade forum

The AIC sponsored an afternoon program on Consumer-Driven Agriculture and Trade as part of the annual meeting of the International Agricultural Trade Research Consortium in Monterey in December.

AIC director Dan Sumner moderated a panel discussion on the response and initiatives by California growers in multinational consumer-driven markets. Panelists included Barry Kriebel, president and CEO, Sun-Maid Growers of California; James Lapsley, wine historian and director of agricultural programs for UC Davis Extension; and Stuart Woolf, Los Gatos Tomato and Woolf Farming Company.

Announcing

Spring Outlook and Issues Seminar

April 25, 2003

DoubleTree Hotel, Sacramento, California

AIC joins the California Chapter of the American Society of Farm Managers and Rural Appraisers (ASFM-RA) in presenting our California Outlook and Issues Seminar on April 25, 2003 at the Doubletree Hotel in Sacramento. Producers, industry representatives, policy professionals, managers, appraisers and anyone interested in California agriculture will find the program useful and informative.

Highlights include:

- Commodity and Issues OutlookDan Sumner, AIC and UC Davis
- China: Customer or Competitor.....Scott Rozelle, UC Davis and AIC
- Global Food RetailersRoberta Cook Canela, UC Davis
- Cost of Production TrendsKaren Klonsky, UC Davis and AIC
- Farm Labor Issues and OutlookBert Mason, Calif. State U. Fresno
Phil Martin, UC Davis
Arturo Rodriquez, United Farm Workers (invited)
- Trends in Farmland ValuesASFMRA committee representatives

Registrants are also invited to join us for tours of UC Davis labs and farm equipment facilities on the afternoon of April 24th and for a "California Classic" Barbecue at the Heidrick Ag Museum in Woodland that evening.

For information and registration, please contact the Chapter Secretary via e-mail at: secretary@calasfmra.com or telephone Suzie Roget at (209) 368-3672; or email AIC at: agissues@ucdavis.edu or ASFMRA website: www.asfmra.org/fmeetings.htm.

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