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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

September 3, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: Jacob J. Lew
Sally Katzen

SUBJECT: Agriculture Assistance Package

In response to your direction that we develop an agriculture assistance package that responds to the serious needs in the farm community, an interagency group put together a package that includes several discrete components. There is general agreement that a package based on sound long-term policy should:

- improve the safety net for major crops by providing additional money to farmers when farm incomes fall, through a targeted counter-cyclical income assistance program (similar in design to the proposal of Congressman Stenholm - H.R. 2792), as well as through disaster/drought assistance for losses from this year's natural disasters;

- help move farmers towards better risk management by making crop insurance buy-up policies more affordable (more comprehensive crop insurance reform for future crops is moving separately through Congress);

- promote environmental/conservation goals by increasing the amount of environmentally sensitive land that is removed from production, thereby reducing crop supply and providing assistance to farmers who pursue good stewardship practices that are high priority but costly to maintain;

- expand exports, while promoting humanitarian aid, by extending the wheat donation program and increasing concessional sales under PL 480 authorities; and

- address various sectoral concerns, by extending the dairy price support program, funding the Step 2 program for cotton, providing assistance to hog producers, reactivating an on-farm storage facility loan program, expanding the availability of farm loans, and otherwise ensuring that USDA has the resources available to carry out all of these programs.

The total dollar amount of our package is necessarily constrained unless we are willing to propose spending that would be funded by the social security surplus. If we are limited by the non-social security surplus combined with offsets, the largest package we can achieve is about the size of the total Senate passed package of $7.4 billion. There are no viable offsets from agriculture because of broad reliance on the AMTA payments schedule. Within a package of that size, roughly $3.5 billion would be available for the income assistance component – which Secretary Glickman believes will be criticized as below proposals already on the table. Specifically, the Senate passed package included $5.6 billion for income assistance and Harkin/Daschle presented an amendment that also would have provided $5.6 billion in income loss payments (as part of a $10.6 billion package that failed). The Vice President endorsed the $10.6 billion proposal and is encouraging us to put together the largest package possible. Our program is smaller than the alternatives because it is more targeted than the others (we moved away from the 1996's Farm Bill's AMTA payments, which are not counter-cyclical, are distributed largely on the basis of past production, and inevitably deliver significant amounts to large producers). Nonetheless, there is substantial skepticism that an income assistance program less than $5 billion will be well received by those whom we are trying to help and that we, in fact, may not be taken seriously in the discussions that remain this year.

How would you wish to keep smaller (amount max) & how do we define small

The Agriculture Appropriations bill is currently in Conference. The House passed the Appropriations bill before there was any consensus to provide any additional farm emergency funds, and none was added. By the time the bill reached the Senate, there was agreement on the need for more money, and the Senate added $7.4 billion. The size and content of the assistance package will emerge from Conference.

We recommend, subject to your approval, that we do not try to prepare a formal budget amendment or draft legislation, but rather, prepare a conferees letter in which we would set forth the reform principles we care about and lay down certain markers. Among other things, the conferees letter would indicate:

- general agreement with the size of the Senate package ($7.4 billion);

- disagreement with the content of the income assistance piece, urging that the conferees use the approach of H.R. 2792 that moves away from AMTA payments and provides counter-cyclical assistance, although it needs to be properly sized (USDA loan deficiency payments should be included in farmers' crop revenue calculations) and more targeted to smaller farms and those most in need;

- insistence that any package include drought and disaster assistance for livestock and crops, as well as suggest an expansion of the Emergency Wetlands Protection Program, the farm labor assistance, and the Socially Disadvantaged Farmers Outreach program;

- the importance of directing a significant portion of the funds (several hundred million dollars) to environmental/conservation programs, and specifically to raise the Wetlands Reserve Program cap, increase the Conservation Reserve Program continuous signup incentives and raise the acreage cap for CRP from 36.4 to 40 million, expand the Environmental Quality Incentives Program, and increase funds for Natural Resources Conservation Service technical assistance;

- support for the Senate provision of $400 million for crop insurance premium subsidies to make higher insurance coverage more affordable on the 2000 crop;

- support for an extension of the dairy support program (the Senate bill includes $325 million for dairy and livestock assistance);

- fund the Step 2 cotton program for next year at $200 million (which is the first year amount included in the Senate bill's $400 million for 3 years);

- the need to give the Secretary authority to provide emergency assistance to livestock; and

- replenish USDA's emergency farm operating and other loans and otherwise assure that USDA has adequate resources to carry out these programs.

If we take this approach, one additional issue remains on which we need guidance. OVP and USDA want to expand federal support for ethanol and other bio-fuels as a means of creating additional markets for agricultural commodities. OVP argues that with growing concern about the environmental effects of MTBE, an oxygenate additive used in reformulated gasoline, there may be new opportunities to expand ethanol use in gasoline. The economic agencies point out, however, that the federal government currently subsidizes ethanol by more than fifty cents per gallon, and that the market will naturally meet the increasing demand for ethanol as MTBE is phased out. In addition, last month you directed the Secretaries of Energy and Agriculture to prepare a report within 120 days on options for achieving a tripling of domestic use of bio-based products by 2010, and this might prejudge the outcome of that effort. We recommend that the Administration's letter to Congress emphasize the need to support the Administration's bio-energy R&D agenda, and our desire to work together to identify cost-effective opportunities to expand the use of agricultural products in transportation and power production fuels, but that we do not now request additional funds for ethanol. If you disagree with this judgement, we could put together a program in support of OVP and USDA that would cost about $50 million.

I'm w/ VP&USDA

Finally, we have uncovered a number of smaller initiatives (mostly environmental and trade) for which there is adequate authorization and funds available, which can be done administratively. We propose that the Vice President announce these during one of his trips to farm country. We also need to say more about what we are doing on concentration, which is a deeply held concern in farm country.

OK

cc: John Podesta